ARKET NEAR TURNING POIN

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

APRIL 18, 1942

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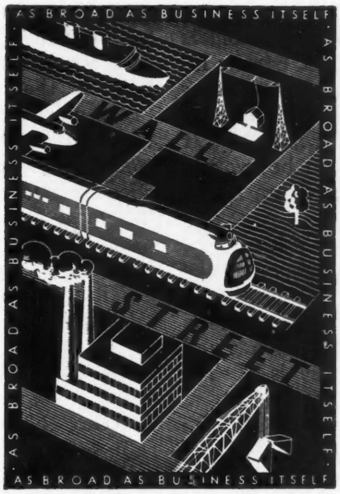
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

THE FORGOTTEN INVESTOR . . . At a time when the total payment of dividends is going down, the total remuneration of corporate executives is going up. In many instances pension plans for highly paid company officers are being further "liberalized" and—so far as we can determine—none is being scaled down or eliminated. And a high percentage of present day proxies (which all too many stockholders sign without careful inspection) provide for amendment of by-laws to the end that directors may be reimbursed for expense or possible loss if they are sued by stockholders.

The many letters we regularly receive—and especially the scores that have arrived in response to the editorial of Charles Benedict in our last issue—show beyond any question that the average stockholder sincerely believes his rights are not adequately protected under a condition of "absentee ownership" in which, though the legal requirements are scrupulously observed, as a practical matter he is powerless to exercise control over what is technically "his" management.

The answering argument of corporate managers usually runs like this: (1) the executive does better work if he is freed of worry over his future by a pension plan; (2) look how small the salaries, bonuses and pension costs are when they are translated into percentage of sales or earnings per share; (3) you must allow for the high income taxes the executives have to pay out of their salaries and bonuses; (4) good executives are scarce and can always get a job elsewhere if they are not well paid.

The great majority of the stockholders we know and hear from are not satisfied with these arguments. They feel that executives getting remuneration of $50,000 to $150,000 or more a year ought to be able to provide for their own old age annuities, regardless of their income taxes. They answer that they also have to pay income taxes—often out of reduced dividends. They are not impressed by the "small amount per share" argument. They expect to get less dividend income from the corporations, but point out that executives continue to get the same income or more. Hence, they feel that this is a decided inequality of war sacrifice—in that respect putting recipients of increased corporate salaries, bonuses and pensions on something of a par with organized labor and the farmers as the "fair-haired boys" of the war.

Finally, the stockholder observes that the great majority of upper-crust executives "grew up" with a particular company and that there is relatively little shifting around of such men from company to company. He thus takes with a large grain of salt the hint that this or that company chairman, president or vice-

president might quit unless he gets $75,000 to $150,000 a year, plus pension.

There is no intention whatever in these comments to make any blanket indictment of corporate executives, most of whom are conscientious, fair-minded men. But it is human to take advantage—legal advantage—of a strategic position; and no good can be served by ignoring the simple fact that there *is* rising discontent among stockholders with their situation in relation to the power and perquisites of executives.

On this problem, of valid concern to both stockholders and managements, THE MAGAZINE OF WALL STREET intends to crusade for fair play for stockholders—not for any special privilege, not for thoughtless or ill-founded opposition to management policies: just for fair play. It is our hope that a satisfactory answer can be evolved through a voluntary meeting of minds between stockholders and managements.

But an answer will have to be found; and if it can't be had through voluntary, cooperative action there will be increasing danger that the Government will eventually attempt to provide it by regulating corporate affairs even more generally than now—including dividends and executive remuneration. The camel's nose is already looming pretty large in the door of this tent.

We invite both stockholders and executives to write us candidly what they think.

PEAK WAR OUTPUT . . . Despite continuing bottlenecks here and there, the war production now pouring out is truly a miraculous achievement. We raised a question in these pages two weeks ago as to whether the high degree of continuing secrecy is either necessary or desirable—contending that revelation so far as practicable of the over-all figures would be the most effective kind of factual "propaganda" for foreign and domestic consumption.

Evidently at least some public men high in the confidence of the Administration feel the same way about it. Speaker of the House Rayburn stated that our plane production now exceeds 3,300 per month or equal to current annual rate of approximately 40,000. Since output rate is steadily expanding, it is now a virtual certainty that the President's goal of 60,000 planes this year—of which 45,000 are to be combat types—will be attained. This makes the objective of 100,000 combat planes for 1943 seem much less fantastic than many thought when it was first called for.

Speaker Rayburn says we are "far ahead of schedule" on the 45,000 tanks called for in the 1942 program, which means that more than that will be produced. He added that the goal of 20,000 anti-aircraft guns this year is also being met; and that the schedule for an eight-fold increase in merchant ship tonnage "probably will be exceeded by several million tons before the year ends."

It is no secret that Chrysler was the first to undertake mass production of tanks. Without mentioning names, however, Mr. Rayburn remarked that "one factory alone is turning out each day an entire trainload of tanks." As for combat aircraft, Speaker Rayburn assures us that "we and our allies can and will build two and one-half times as many planes as all our enemies put together."

The key problem from here on will not be arms production but the uses we make of the output. That involves (1) the training of great numbers of men into effective combat teams with properly balanced equipment; (2) trans-ocean movement and continuous supply of powerful expeditionary forces, which is the hardest nut of all to crack due to presently inadequate ocean bottoms; and (3) the soundness of the strategic decisions of the top command. Our defeats to date, as well as those of the British, have been due in large measure to too great dispersion of inadequate forces, but perhaps that could not be avoided and should change in due course anyway as we shift from a defensive to an offensive strategy. Meanwhile Russia is unquestionably the most important 1942 front, and Roosevelt and Churchill are 100 per cent correct in bending every effort to strengthen it against the coming Nazi assault. If Hitler can be set back this year, his end will be certain—and also that of Japan.

STOP INFLATION . . . While the Treasury Department and the Office of Price Administration are academically debating the why and wherefore, each endeavoring to shift responsibility to the other, prices continue to rise and inflation draws one step nearer. Leon Henderson insists the way to halt inflation is for the Treasury to back a tax measure much bigger and more drastic than the one contemplated, while Mr. Morgenthau, not to be outdone, declares it is up to the O P A to institute an all-embracing price control order. In the meantime the situation grows worse.

Instead of this Alphonse-Gaston comedy, with its potential tragic consequences, both the Treasury and the O P A should get together, toss politics out of the window for the duration and act in concert. Only by such action can inflation be halted in its tracks.

More spending money is available. Collections, especially those of old debts and installment purchases, have been excellent. High wages have been in the hands of the workers for a considerable time. Most of the workers are debt-free and eager to spend their money. Inventories of durables and of soft goods are dwindling. The stage is all set for inflation and, no matter how high taxes go, prices will soar and inflation follow—unless—the lid is clamped down, and clamped down hard.

The weakness of tax legisation is the fact it is always predicated upon political expediency instead of economic necessity. Political fear prevents the enacting of tax legislation which will tax all alike. Unless that fear is overcome, politics forgotten during the emergency, the possibilities of an all-inclusive tax bill are virtually non-existent. Political fear is not a monopoly of Congress. It finds its way into the White House and to the Administration agencies. It influences the reluctance of Mr. Henderson to take the bull by the horns and actually halt inflation, just as much as it does Mr. Morgenthau and the Gentlemen on the Hill.

As I See It!

BY CHARLES BENEDICT

WORLD CYNICISM

To win this war we must make the world believe in our sincerity, for the people of this earth are thoroughly disillusioned. To them one master seems as good as another. While not expecting alleviation from a change, they hope for the miracle that will better their lot.

What the British call treachery in Malaya and Burma, the natives refer to as revenge—as revenge for previous wrongs. Forgotten are the advantages of the increasing mildness of British rule in recent years. That is why Egypt, too, is wobbly. Why India, with Japan standing at her gates, has fought the British proposals with such seeming inconsistence. The same thing is true of the Irish. The habit of fighting British rule is so strong that they no longer are objective in their thinking, and forget that "the devil you know is better than the devil you don't know."

The discontent among the native populations in the British possessions was an important consideration in the plans for destruction of the empire. Without this potent factor working in their behalf, the Axis would never have dreamed of affronting, let alone attacking, the British. It is this element they have counted on to clinch continuous victories for them. It is a basic consideration too, for dickering by the leaders of these various nationalities shows how they cynically hold out for their share of power in the new line-up that will control international economic and industrial power after the war.

President Roosevelt alone has the prestige to win over these factions, due to the recognition of his great humanitarian outlook. Our record in the development of the Philippines—and the demonstrated loyalty of the Filipinos which enabled us—despite overwhelming handicaps, to hold Bataan for four months—will help us greatly in our negotiations. Yet in the bargaining with these Oriental minds it is likely to cost the United States plenty. But we will have to pay the price if we are to prevent the citizens of this country from coming under the yoke of foreign powers. So serious is the situation brought about by the scope of the Japanese victories.

Despite public approval by the Axis, Nazi Germany cannot be pleased by the fact that the spoils of fabulous wealth have all fallen to Nippon; and if Japan is permitted to take India also, Germany's well known ambitions will have been frustrated, for there is no likelihood that Japan will ever be willing to share the loot.

It would seem that Germany's overwhelming greed has definitely pulled the white man down from his dominating position in the world—with the possibility that this power will pass to the yellow race unless a greater wisdom than has yet been shown will outmode race superiority entirely, and bring in an age of superiority for the individual alone, based on character, talent, and accomplishment regardless of race, color or creed. But to believe that this is possible would be to attribute greater intelligence and justice than man has shown himself to possess.

And now the world seems to be standing still—waiting for the next move. Where will Germany strike, is the burning question of the hour. Already she is behind schedule. She is at least three months behind in her time table in Northern Africa. The Nazis should have opened their drive for the Near East the early part of March. By May first the heat will be terrific and the torrential rainy season will have begun. (*Please turn to page 52*)

Press Ass'n Photo

The above is a scene in an Indian shipyard which is busy turning out trawlers and other naval craft.

Market Near Turning Point

The market continues to show hopefully stubborn resistance to much disturbing news. We think an important turn probably is not far off but that immediate expansion of holdings carries too great risk of being premature.

BY A. T. MILLER

Summary of the Fortnight: The market was put still more on the defensive by depressing war news, indications of rising Congressional sentiment for severe curbs on war contract profits and reports of impending over-all price freezing. But the defenses did not crumble. In fact, the retreat in equity values was nominal.

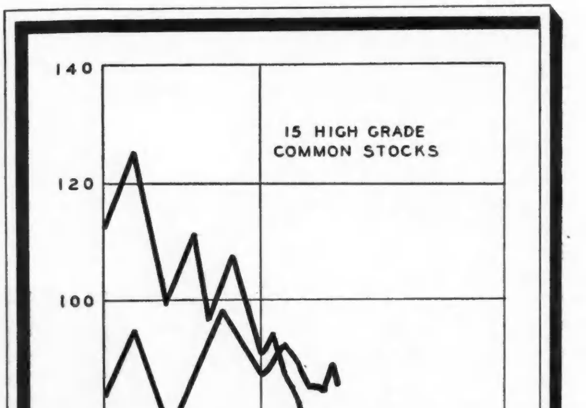
Before the Russians launched their great and still indecisive counter-offensive last winter they first had to stop the German advance. The stock market is now in a similar position, so to speak. It has been on the defensive for a great many months—indeed, has made a net retreat of approximately 38 points in the Dow-Jones industrial average since early November, 1940.

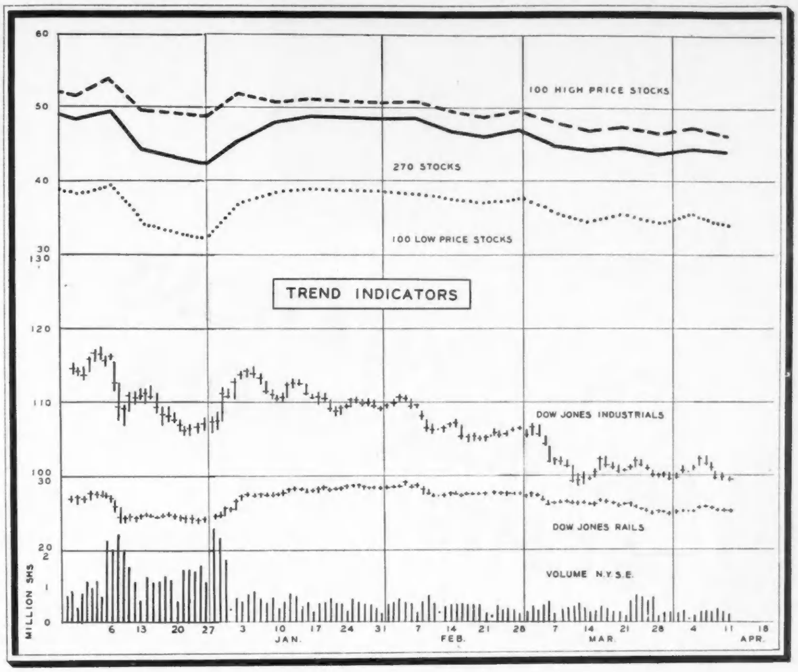
This phase of decline—discounting the transition to an all-out war economy, to U. S. participation in the war, to high war taxes and (during the past several months) the succession of military reverses suffered by the United Nations—has been interrupted by numerous minor rallies, as well as by the 16-point intermediate rally in the summer of last year.

Since stock prices never go to zero, there must be an end somewhere and sometime to this retreat. In our opinion, that end is relatively near—probably a matter of a few weeks at most. We have our doubts as to the feasibility of a sustained bull market in a war-New Deal setting, but decidedly worth while intermediate recoveries certainly need not be ruled out. We had one in 1940, lasting approximately five months and lifting the industrial average by some 27 points or 25 per cent, at the very time when the Germans had easily swept through to the English channel and few observers conceded England any chance of survival.

The question that most concerns you, however, is not the time of the coming market betterment but whether it will start from approximately the present price level or a lower one. Some professional analysts have very dogmatic views on that debatable matter, with perhaps the majority predicting further decline and some arguing for 90 to 85 in the industrial average and a few holding out (for the time being) for 75. Our own opinion on this has not yet jelled and for the moment we think the wisest course is to wait and see for a bit more. Certainly we cannot hold that the market is entirely immune to news shocks—and more shocks, possibly very serious, must be allowed for. On the other hand, the broader price averages have shown a very encouraging resistance to bad news for a great many weeks and even the Dow industrial average has managed to maintain its March low intact for about one month.

After long drawn out declines, persistent sidewise drift in the averages, with very low volume, has usually been required to set the technical and psychological base for a recovery period. Such negative movements have no standard time span and their termination—in





Reaction last week did little more than cancel the preceding week's minor upturn and was notably unimpressive from the bears' point of view, considering that gloom was thick enough to be sliced with a very dull knife as Bataan finally fell, as the Japs sank two British heavy cruisers and a small aircraft carrier while knocking harder on the doors to India, as Congress turned to rigid profit limitations on war contracts, as the Administration warned of general price freezing and hinted of demand for still heavier taxes (no doubt as a lever to aid the already stiff Treasury proposals through Congress), and as news reports indicated final Nazi preparation for a drive toward the Caucasus oil fields and the Mid-East.

Since our last previous analysis was written, there was no net change in our weekly index of 270 stocks, which covers the bulk of all market volume and which closed last week at 43.9—still above the low of 42.6 made in December nearly fifteen weeks ago.

advance or renewed decline—most generally is linked with news developments. Although in the *defensive* strength shown for some time the market has done about all that any reasonable optimist could ask, few buyers are yet willing to make a guess on this tentatively hopeful technical pattern in the face of imminent expectations of a major German war move. One cannot blame them for caution.

Assuming that a firm bottom has been made—which the evidence tentatively suggests but which is, of course, far from certain—the stalemate may last until the Germans launch their coming "last chance" drive and we have a chance to see how formidable it looks. On the other hand, it is demonstrably possible for the market to stage a good rally in a seemingly unpropitious news environment—the requirement being merely that the bad news has been adequately discounted in advance. In such cases, shorts cover, a few bold spirits buy and the rest tag along, finally convinced by "the market's own action." Perhaps it will work out that way—for it is extremely difficult to imagine a time this spring when major war uncertainties can be said to have been really "clarified."

We are optimistic to the extent that we think there is at least an even chance that bottom has been made in the broader averages for the spring and summer; and that, even should there be additional decline, it is not likely to be more than moderate. Hence, we advise against unnecessary liquidation of sound holdings, but we readily concede that the present technical evidence is only *tentatively* bullish, that coming news events may be disturbing and that it may well be premature at this writing to expand speculative holdings or investment commitments for appreciation. We can say, however, that our confidence in the market prospect will be strengthened if the averages get through the rest of this month with previous lows still intact.

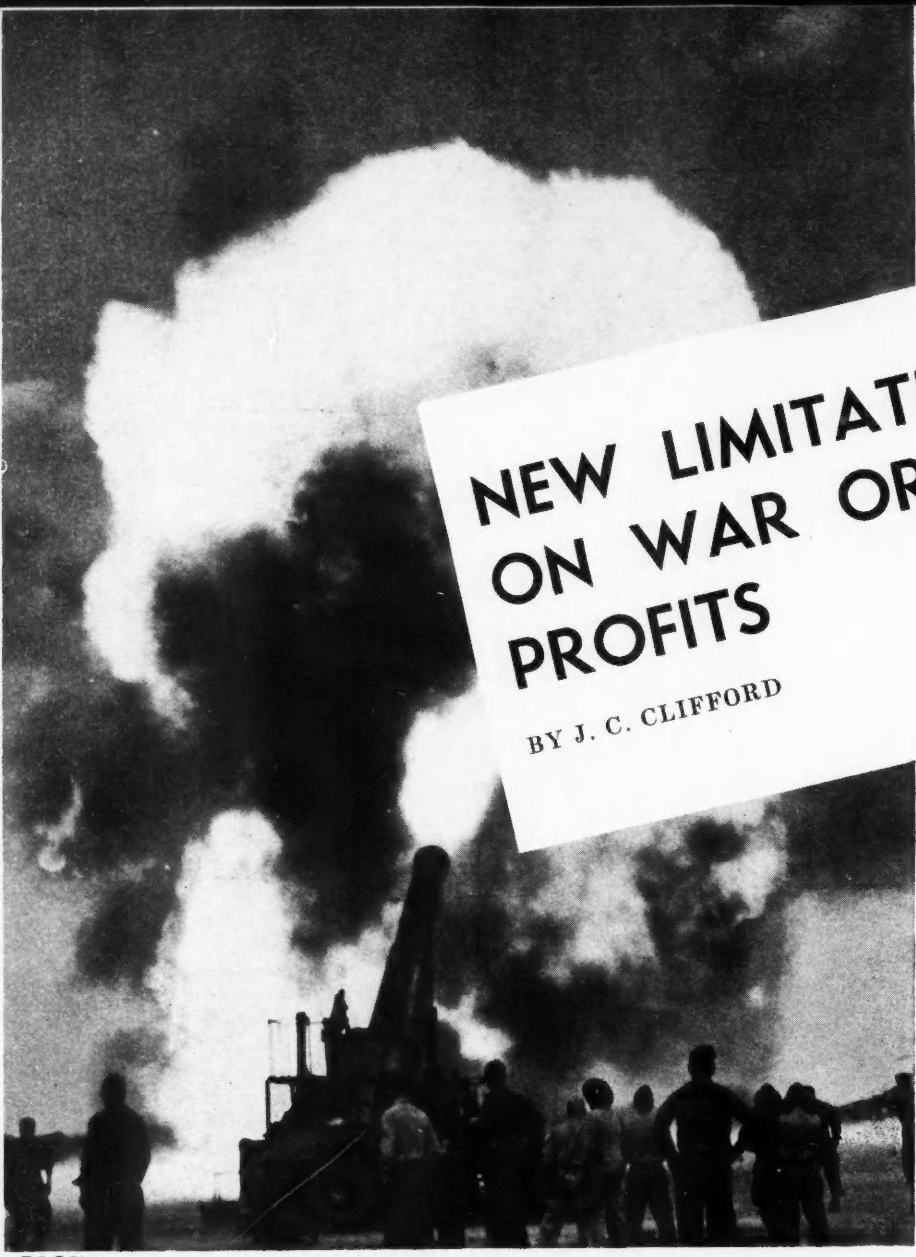
It seems increasingly likely that war contract profits are going to be hit hard either by flat percentage curbs or by excess profits tax rates at least as high as the Treasury has demanded. Despite the partial offset provided by huge volume, it is not surprising that our weekly average of 10 armament stocks has come under increased pressure. It closed last week at a new low—29.4 against March low of 29.8 and 1941 low of 31.21. As this group stood at 27.71 in the last "peace week" of August, 1939, when composite earnings were smaller than they are likely to be under the worst imaginable war taxes, we frankly doubt that this recent increased price weakness is the beginning of serious decline.

True, you can take a slide rule and arrive at tax-earnings estimates for 1942 that make certain individual stocks—notably chemicals—look very high at present prices. What you can't figure with a slide rule is the long range or post-war potential that investors believe *ought* to have some representation in *current* price. Moreover, why single out equities which always are relatively high in price-earnings ratios?

The *average* common stock is now a bit under the lowest level reached in the deep depression year 1934—the figure for our broad weekly index being 45 in 1934 versus 43.9 today. A composite of 200 large industrial corporations earned only $414,850,000 in 1934 against approximately $1,600,000,000 last year. Thus, so far as composite earnings are concerned, the broad market average has already discounted a reduction of *nearly 75 per cent from 1941 levels.* Does anyone believe average earnings will be reduced that much by the 1942 tax bill? We don't. When aggregate corporate earnings power was barely more than a fourth of what it is now, the lowest point temporarily reached by the Dow industrials in 1934 was 85.51. Maybe that will be approached again if the war news is bad enough.

NEW LIMITATIONS ON WAR ORDER PROFITS

BY J. C. CLIFFORD



F P G Photo

Ever since early November of 1940, or for about seventeen months, the stock market has been discounting the anticipated adverse effects of a total war effort upon corporate earning power and dividends.

Intelligent investors knew it was in the cards that profits on war business would be much less "rich" than those garnered back in 1916-1917. They knew that the kind of war we are now in would involve sacrifices which no class or group could escape more than temporarily. The politics of democracy being what it is, they also knew that war time tax increases would fall first and heaviest on corporations.

The tax controversy today, so far as corporations are concerned, has to do only with the method and degree of increased levies. It is agreed that there not only should be no "profiteering" on war contracts but also that (1) profit margins on vastly expanded war volume should be much lower than "normal" margins in peace time; and that (2) corporations can properly be asked to carry as large a share of the war tax burden as is possible without threatening their financial solvency or reducing incentive to a point which would lower operating efficiency.

Neither the Government nor the general public will be impressed by the argument that aggregate corporate profits *per dollar of volume* are already much lower than in active peace years. They know that the volume is being provided at public expense, that the Government has put up the bulk of the capital for plant expansion or otherwise greatly reduced the risk involved in such expansion by allowance for 5-year amortization out of earnings before taxes, and that big manufacturers able to do war work get contracts without sales effort and, in carrying them out, are freed of many of the

competitive commercial problems normal to them in peace time.

So what the Government and the general public take note of is that total dollar profits for last year were as large as those of the private boom year 1929 and for a goodly number of large manufacturing enterprises were bigger than in 1929. That it took greater volume than in 1929 to get this result is beside the point.

It is regrettable that the question of corporate taxation cannot be divorced from political considerations—but the simple fact is that under our system of government it can't be. Thus, valid demands to subject the labor unions to restrictive legislation are always and inevitably coupled with proposals to place new restrictions on corporate profits.

On March 28 Representative Case of South Dakota arose in the House and offered a profit-limiting rider to an $18,301,961,000 Army appropriation bill. This proposal, adopted by a large majority vote without debate, provides that no part of the huge appropriation could be used to make final payment on any Army or Navy contract until or unless the contractor concerned filed a certificate of cost and agreed to subsequent negotiation for a return to the Treasury of all profits above 6 per cent on cost of work performed.

Representative Vinson, author of the old Vinson-Trammell Act which was suspended for excellent reasons when the excess profits tax bill was approved in October, 1940, is sponsoring his own version of a 6 per cent profit limit on war contracts. Actually, any net profit under this proposal would be much less than 6 per cent of the contract cost—because income and excess profits taxes, interest on debt capital and certain other items of cost could not be charged to the contract. In the Senate there is considerable sentiment for a sliding scale of profit limits, ranging from 2 to 10 per cent of contract costs, depending upon the size of the contract.

Fortunately, it is very improbable that any such rigid limitation will become law, since both the Treasury and the War Department are strongly opposed to it. Speaking for the Treasury, Mr. Randolph Paul pointed out that if the Treasury's own tax proposals were adopted, even a corporation without funded debt and not subject to the excess profits tax would have to earn 13½ per cent on the contract cost before taxes in order to retain 6 per cent net on the contract after payment of taxes. Moreover, he added that, if limited to 6 per cent on contract cost, many companies could retain less than 1 per cent net.

Undersecretary of War Patterson stated that the Vinson plan would virtually drive small enterprises out of war production. He also emphasized that any flat profit limit on contracts would work out inequitably in that it would provide a low rate of return on invested capital in cases where execution of the contract took extended time and a high rate in cases where the contractor could complete successive contracts within a short time. An example of the first type might be a shipbuilding company, requiring two or three years to carry out a particular contract. On the other hand, a textile manufacturer selling blankets or shirts to the Army might turn over his capital so many times within a year as to earn 100 per cent or more upon it.

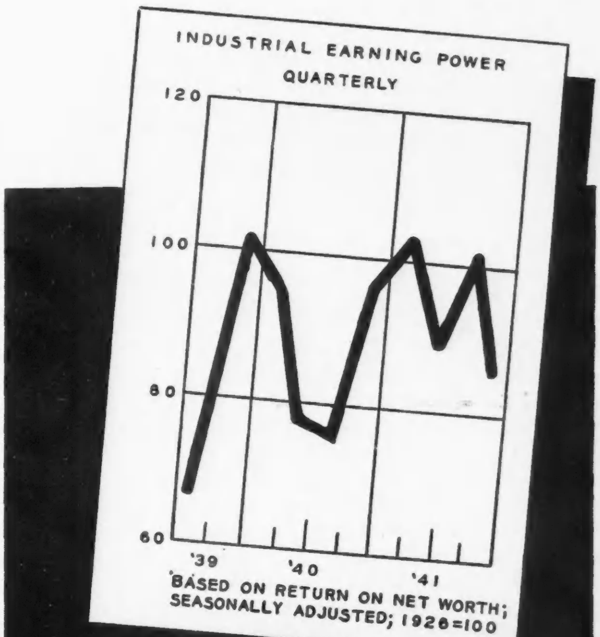
Now what is really significant to investors is not the 6 per cent profit-limit proposals in themselves—since, as previously stated, they are unlikely to become law—but the fact that such proposals reflect a definitely rising sentiment for much heavier taxation of profits derived directly from war production.

On the 1942 tax legislation there are numerous points of disagreement between the Treasury and the members of the Congressional tax committees. We are concerned in the present article only with the proposals and contingencies that relate to corporations. As is not surprising, Congressional sentiment seems to favor excess profits taxes at least as heavy as the Treasury suggests—with not a few members willing to go even further—but lower normal and surtaxes than the Treasury favors.

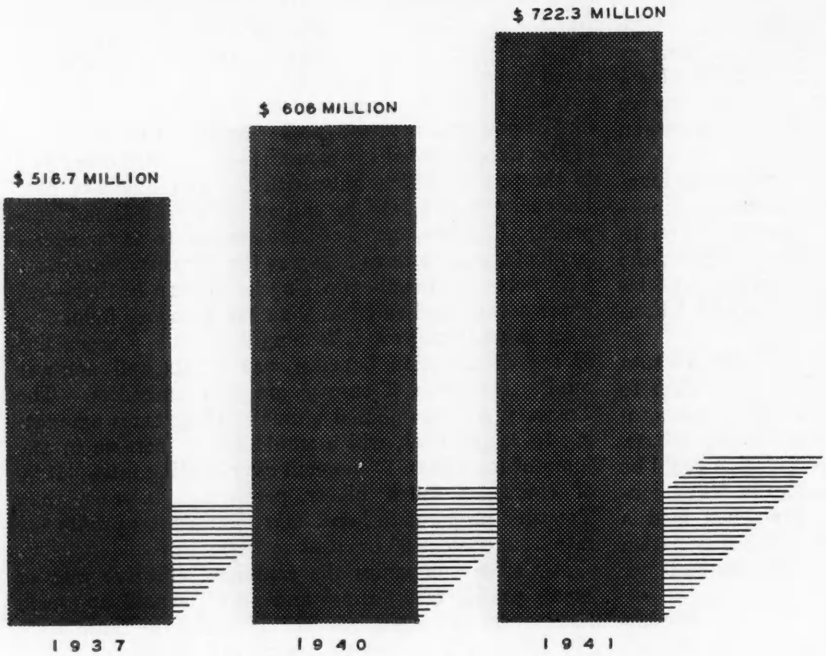
In short, Congress is leaning toward a sharper line of tax demarcation between war profits and non-war profits than the Treasury program embodies. The Treasury seeks combined normal and surtaxes amounting to 55 per cent, which would be an increase in one jump of more than 77 per cent over existing rates. It is, of course, a much bigger percentage increase than Treasury proposal to boost maximum excess profits tax rate from present 60 per cent to 75 per cent.

For some companies the combined effective rate of excess profits tax, normal and surtax would approach 90 per cent of earning power. However, in these cases the Treasury proposes that such part of the levy as is over 80 per cent will be handled as a compulsory loan to be refunded to the corporation within a specified time after the war provided such funds are employed for plant capital purposes or employment of labor. Thus, the refund could not be paid out in dividends nor be merely added to cash on hand.

It would seem that the Treasury figures an effective rate of 80 per cent as the maximum that can be ex-



WAR PROFITS ALREADY MODERATE



Total net of 218 companies in aircraft, shipbuilding, machinery, steel, copper, fabricating, electrical, and rail equipment.

tracted from corporations without lowering productive efficiency . From the latter point of view, the precise danger line is debatable and may be under 80 per cent. On this point, however, it seems common sense to expect that Congress at least will be no tougher than the Treasury and hence that the Treasury schedule represents the very worst in corporate taxation for this year and probably even "for the duration."

But the chances are that the total sum to be raised from additional corporate taxes will be less than the approximately $3,000,000,000 which the Treasury seeks and that combined normal and surtax for companies with earnings of more than $25,000 a year are more likely to be within the limits 40 to 45 per cent than 55 per cent. Part of the difference, but not all, may be made up through excess profits taxes higher than the Treasury has asked. Which amounts to saying that Congress has at least some sympathy for "normal" profits but little or none for excess profits due to the Government-financed war activity.

Despite the tax threat, a minority of corporations—aided by continuing large expansion of volume—will be able to maintain levels of earning power comparing relatively well with 1941 results; and a few no doubt will earn even more than last year. Those that have the best chance of doing so appear to be in such industries as aircraft, rail equipment, machinery, mining, shipbuilding and railroads.

But bear in mind that in most cases earnings founded on war activity can only be appraised on a speculative basis. Quite aside from the matter of taxes, nobody knows how long such profits will be maintained. In practically every case where war earnings are sharply above pre-war average, it will be a company which has a poor and erratic peace-time record or a quite dubious post-war potential or both. There is really no *investment* basis for appraising such earnings; and, regardless of speculative fluctuations, price-earnings ratios will remain very low.

As an extreme example which illustrates this point, take the case of Worthington Pump, which has a poor past earnings record and has never paid a common dividend. In 1939 it earned only 54 cents on the common but attained a market high of 23⅛; in 1940 it earned $6.20 but bettered 1939 high by only 1¾ points; and in 1941 it earned $8.42 per share but topped (temporarily) the 1940 high by only ¾ of a point. Today at 17¾ it is priced fairly close to the mid-way point of its 1939 price range, although current earning power is more than 15 times larger than in 1939.

I have said this is an extreme example, yet the skepticism that attaches to the war-time earning power of this company also attaches in varying degrees to earning power of all war-active enterprises which are doing substantially better than in peace years and whose post-war potential is far more uncertain or dubious than that of seasoned, efficient consumer goods enterprises.

It is not here contended that there is no basis for price rise in the war stocks but merely that the basis is speculative—and therefore geared far more to changing "sentiment" than to changing statistics of earning power, dividends, etc. For instance, there will certainly be substantial earning on United States Steel common this year—perhaps $7 to $9 against $10.43 last year—and no doubt enough to justify $4 dividend as paid last year. The stock is priced at about 50. In the deep depression year 1934 it attained a price as high as 59⅞, though it was operating at a deficit and paid no dividend.

Peace is not in sight and the outline of the post-war world is very dim, to say the least. But we must assume that in due course business enterprise will go back to work servicing the normal needs and desires of civilian man—for it can be said that if that basic assumption is wrong there is no long range future for any common stock. You might say it is premature to attempt to take post-war potentials into the reckoning of security values but—however, roughly or gropingly—the market is doing so today and every day. It is the assumed post-war potential or "normal" earning power which explains why the presently declining earnings per share of seasoned peace stocks—such as General Foods, Union Carbide, J. C. Penney—are still valued far more highly, in terms of price-earnings ratios, than earnings of the war stocks. (*Please turn to page* 50)

F P G Photo

IF PEACE COMES SOON

BY ALEXANDER COLVIN

(Editor's Note: This is the first of two articles dealing with effects of peace upon our economic, political and social conditions. The second article will deal with conditions if war is prolonged.)

THE first principle a student of international law learns is that "the object of war is peace." That is the identical lesson every belligerent nation must learn, especially the United States.

The object of war is most certainly peace. It can have no other object. No nation, not even Nazi Germany, can expect to spend all of its life engaged in war. War destroys, it does not build. It cannot perpetuate itself indefinitely. War exhausts the resources and the manpower of a nation faster than they can be replenished. Therefore, the only victory a belligerent can hope to attain is that of peace, a strong peace dictated at its own terms.

If it is true that the time to prepare for war is when a nation is at peace, it is even more imperative that a nation at war prepare for peace. We can only do this through adherence to four principles. First: WIN THE WAR. Second: Exercise the utmost precautions in preparing the peace treaty which terminates the war. Third: Make certain the treaty is lived up to by all concerned and does not breed additional wars. Fourth: While winning the war insure that your own economic structure as well as that of other nations are not so badly shattered as to make a healthful, lasting, economic-wise peace beyond hope of possibility.

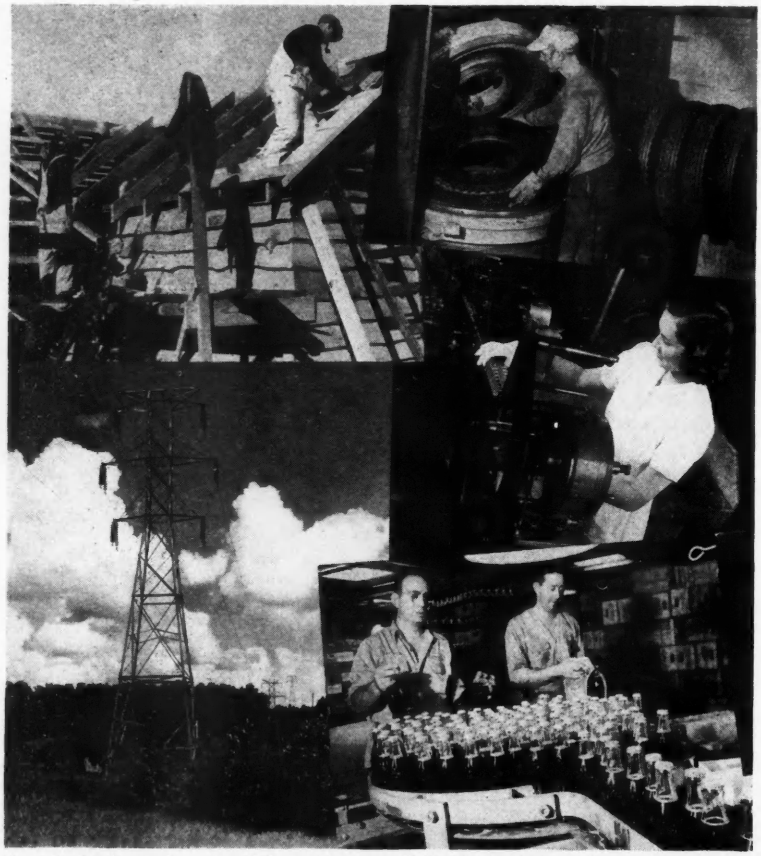
Bear in mind that despite Nazi propaganda it wasn't the Versailles treaty alone which brought on the present struggle. It was failure to enforce the treaty and the fact Germany was crippled financially and thus ripe for any "crack-pot" leadership which would promise it financial independence and security—at any cost.

The task of winning the war rests upon the shoulders of the military, supported by industrial effort. That of preparing for peace rests upon our statesmen and our propagandists. The responsibility for enforcement of the peace treaty is that of the several governments, and the economic responsibility at home is vested in our legislatures, our industrialists, our farmers, and our ability to prevent hatreds and a spirit of revenge from clouding our long-range perspective.

To preserve our economic and social way of life during war is impossible. Our economic structure, designed for peace, must undergo certain alterations before it can dove-tail into the war pattern. It must "conform." Yet, to achieve *real victory* even while we are altering our economic structure we must exercise every vigilance that none of the fundamentals of that economic structure are removed; they are the pillars which hold democracy up solidly as a shield to protect our way of life. We know now that Senator Wheeler was wrong when he declared, before Pearl Harbor, that "War means the end of civil liberties, the end of free speech, free press, free enterprise. It means dictatorship and slavery, all the

things we abhor in nazism, communism and fascism." In reality we know, predicated upon evidence, that the control of policy by public opinion is often more operative when a democracy is waging war. Public opinion is stronger during war, because it is more articulate; because the public takes a keener interest in national and international affairs, has an augmented stake in government and becomes nationalistic instead of individualistic or sectionalistic.

Another fallacy we feel should be exploded if we are to understand the strength of a democracy engaged in war and preparing for peace, is that too-often repeated nonsense that "totalitarianism is more politically efficient than democracy during war." Tommyrot! Some naïve persons actually believe that politics, as politics, have been abolished in totalitarian countries. That is untrue. Politics are stronger there than ever. The elimination of rival political factions, so-called "blind obedience" to the commands of a strongly entrenched leader and the abolition of usual democratic forms of expression and self-government does not eliminate politics. You can't eliminate politics unless you eliminate man. Aristotle realized that when he referred to man as a "political animal." We have the spectacle today in Naziland of seeing Goering, Goebbels, Himmler, von Ribbentrop and other Nazi leaders playing politics, not only for Hitler's favor, but to become Hitler's successor. In the Reich politics start at the palace among the bureaucrats and proceed down the line to the men in the street or in the ranks of the armed forces. In Germany, in lieu of rival political parties, we have the Social Democrats versus the Army, because they are in variance and each is concerned with the welfare of its own members.



Photos by Gendreau—Armstrong Roberts—Goodyear—Philip Morris—Ewing Galloway

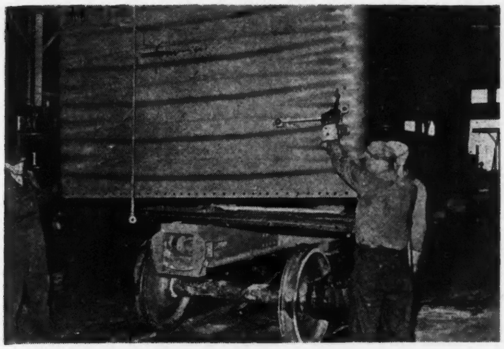
If Peace Comes Soon—Consumer Industries Would Benefit.

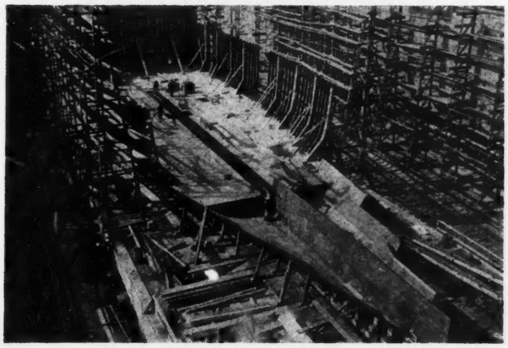
So much for politics. They are ever with us and to imagine that war, emergency or even catastrophe will eliminate it, is a type of optimism that no amount of argument or proof can dim. What about the social and economic factors of war and of peace? What of its economic problems? As Dr. Henry W. Wriston, president of Brown University, succinctly expressed it in "Prepare for Peace": "As an economic device, war is reminiscent of burning the house to roast the pig. No wealth can come out of the fantastic waste and destruction of war, and none should be promised. Neither reparations nor payment of debts will ever liquidate the material losses, and any pretense to the contrary is dishonest. It is a mad theory of political economy that a man can get rich at the expense of a bankrupt debtor, or that he can prosper in trading with people who are near the margin of subsistence, or that his property is increased by the misfortunes of others."

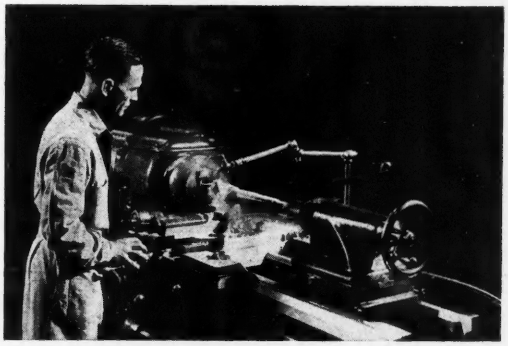
In this article we are assuming that war will terminate soon. We do not necessarily mean by that that we actually believe war will end within a few months, but are merely using such an assumption as a basis of argument. That we will be victorious within a year is the foundation of all of our findings. While every humane and sensible person desires the war to end as quickly as possible and with a minimum loss of life, the fact of the matter is that a sudden termination of hostilities would more seriously disrupt conditions and hamper our post-war economic readjustments than a longer war, until, let's say, 1944. If the war lasted much longer and we were obliged to exhaust our resources and our manpower, the economic situation would be still different.

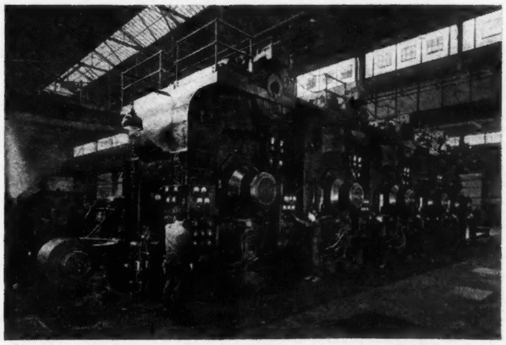
At the risk of being termed "cold-blooded," the writer asserts that we are, both socially and economically, unprepared for a sudden and unexpected peace. Peace within the next seven or eight months would disrupt our economic and social order before we had time to complete plans for post-war reconstruction and readjustment. If it takes more than a year to prepare for war—and everyone knows it takes considerably longer than that—it requires more than a year of war to prepare adequately for peace.

We are just beginning to feel the pinch of war; starting to surrender luxuries and even necessities for the









Photos by Triangle—Bethlehem Steel—National Machine Tool Builders Association—Carnegie-Illinois Steel

If Peace Comes Soon—Heavy Industries Would Face a Readjustment Period.

greater war effort; adjust our lives to conform with military needs and think along national rather than individual lines. We are just getting into high gear, our industrial life being more or less metamorphorsized. The rugged individual has been banished for the duration.

Many will recall that in September 1918 plans were laid for the continuance of the war through 1919 and even through the Spring of 1920. Yet, in less than two months the war ended. First there was the false Armistice, and then, on November 11, 1918, "cease firing" sounded. Soldiers stopped firing bullets, but factories couldn't follow their example. They couldn't halt production of war material, much of it in process, and some partly paid for, with the same speed with which the soldier laid down his rifle. They couldn't convert to peace industries over night.

Orgy of Spending

During the last war years we lived in an era of high wages and high prices. We were living in the midst of an orgy of spending and an abundance of goods. Except for sugar, and a few items of food, there were no acute shortages nor buying restrictions. Money was spent freely. With the exception of Liberty Bonds, most of the recipients of high wages as war workers, had little to show for their efforts. They had little or no savings—no cushion for the inevitable rainy day. As long as the goose was laying the golden eggs every pay day, "why worry" was the philosophy of the people. A philosophy that penetrated deeply into the ranks of industry—which should have known better. There was little or no tapering off period. No opportunity for retrenchment or preparation for the changes necessary. It was war today and peace tomorrow and economic confusion just around the corner.

Our present war program is aimed to prevent any repetition of such conditions. But no program, regardless of its wisdom, can be successful unless it enjoys complete participation from all quarters. When we consider economic readjustment we have two fundamentals to remember. First, mass saving, and second, industrial reconversion. Voluntary purchases of war bonds were expected to provide a financial cushion to tide over war workers and others during the readjustment period so that life insurance, real estate and other negotiables need not be sacrificed. But the voluntary saving plan is proving inadequate. You can't change the spending habits of a people—especially a people just emerging from a depression when money was scarce—within the space of a few months. In all probability some form of compulsory saving, through purchase of war bonds, increased social security taxation or other medium, will be resorted to.

Many large industries are setting up huge surpluses to provide working capital during readjustment so they will be in a position, without borrowing at a possibly high rate, to carry on without undue suffering. Money probably will cost considerably more than it does today when call money may be had for one per cent. Call money, always an indication of conditions, provides an illuminating illustration of war's affect upon banking. In May, 1914, call money cost 1.83, shortly after the declaration of war it leaped to 6.50 and 7 per cent because thousands were borrowing to bid on lucrative foreign war contracts. Then the price slowly tapered off and when the Armistice was signed in 1918 call money brought 5.78 dropping to 4.87 (*Please turn to page 51*)

Rebuilding Your Investment Portfolio

Selected Issues Offering Secure Income Return Under Present Conditions

BY J. S. WILLIAMS

ONE thing which the events of the past two years have forcibly brought home to all investors is the fallacy of the so-called "long term" investment. War is no respecter of the traditional or orthodox. But as a matter of practical truth, war alone has not made it necessary to modify or discard many previously formed conceptions of investment values. Even in a peace-time economy it is quite possible for events to transform an investment security into a radical speculation. In short, an investment program, whether it involves a few thousand or many thousands of dollars, cannot be permitted to become static without entailing serious danger. It must be under continuous surveillance and subjected to a regular and frequent check-up.

Selected Common Stocks for Dependable Income

Issue	1942 Price Range High Low	Recent Price	Dividends Paid 1941	Latest Dividend
American Smelting & Refining	43 -38½	39	3.50	0.50
Bendix Aviation	39⅞-32⅛	35	4.00	1.00
Borg-Warner	24 -19¾	23	2.00	0.40
Bohn Aluminum & Brass	31¾-26	29	2.00	0.50
Clark Equipment	34½-29½	33	3.25	0.75
Freeport Sulphur	38¾-32⅞	33	2.00	0.50
Great Western Sugar	28¼-24	25	2.00	0.50
Loew's, Inc.	41¼-37	39	3.00	0.50
National Cylinder Gas	9⅛- 8½	9	0.80	0.20
Swift & Co	25 -21⅜	22	1.50	0.30
Starrett, L. S., Co.	34¾-29⅛	29	4.25	0.50
Texas Gulf Sulphur	34⅞-29¾	31	2.50	0.50
Timken Detroit Axle	34⅛-29	30	4.25	1.00

There is no gainsaying the fact, of course, that the most conscientious and vigilant investor will experience considerable difficulty in appraising his portfolio in terms of a war economy. Confronted with a mass of confusing, and often conflicting, information bearing on taxes, priorities, shortages, price ceilings, and the myriad of other factors which have been introduced into all investment calculations over the past two years, an investor could quite easily convince himself that whatever he does will be wrong. So he does nothing, and in most cases to the detriment of his capital and income. Let the investor ask himself how many times in his experience it has been possible to arrive at an apparently logical and clear cut decision as to the worth and desirability of a certain security, only to have his opinion discredited by later events, which could not possibly have been foreseen. An unwillingness to acknowledge one's own errors of judgment is understandable but at the same time, the investor, like the businessman, can avoid costly mistakes, or at least mitigate their effect, by preparing himself for the unexpected.

Nor is the latter quite as academic as it may sound offhand. The whole problem of investment would be greatly simplified if it were possible to follow a tried and true formula, much in the same manner that a builder follows his blueprints. Unfortunately, this is not possible and successful investment is a matter of sound judgment and common sense. The yardstick by which investment values are set originate largely in precedent and past performance, neither of which is a wholly reliable guide as to what may be expected in the future. A common stock with a long record of unbroken dividend payments is unquestionably stamped with a hallmark of quality. Nevertheless, an impressive record offers scant defense against the many dislocations and their resulting effect upon earnings in a war economy. Take the case of American Telephone & Telegraph common stock. There is an issue which paid stockholders $9 in dividends right through the darkest months of the depression. Yet now when business activity has reached the highest level in history, it appears almost certain that the company will be forced to lower dividends on its common

stock. The same holds true of General Foods common stock, which has long been held in considerable investment esteem, while such reliable dividend-payers as F. W. Woolworth, American Tobacco and Consolidated Edison have already been forced to reduce their rate of dividends. And the list of companied compelled to take similar action will be substantially expanded in the months ahead.

Reverting again to the case of American Telephone, an investor holding this issue may feel extremely reluctant to eliminate it from his portfolio, remembering that it was one issue upon which he could depend, almost regardless of general business conditions. He may reason that the company had shown admirable ability to adjust its affairs to whatever conditions prevailed in the past, and will probably do so now. Unfortunately, however, the company's current problems are not of a nature which lend themselves readily to managerial solution. The company will be liable for a huge increase in taxes but will have little opportunity to offset them by increased revenues or reduced costs. Many other companies are faced with the same problem, with no alternative except to cut dividends. And a majority of the companies in this dilemma are those which are identified with stable industries and which even under the most difficult circumstances in the past have been able to turn in a quite creditable earnings performance. Having done so, many of them have doubtless lulled their stockholders into a false sense of security. In justice to most of these companies, it can be said that their ultimate transition from a war to a peace-time economy will in all proability be achieved with much less adverse effects earningswise than will be the case of those companies whose current earnings are being abnormally stimulated by war business. But this would not hold true, of course, if for some reason taxes even after the war were to remain at the high levels indicated by the 1942 Revenue Act—which is by no means a remote possibility.

Do It Now

The essential thing right now, however, is a realistic attitude on the part of all investors. Every investment should be evaluated in present-day terms—not in those of the hoped-for reversion to peace-time pursuits. That in itself is a hard enough task without attempting to look ahead to the day when victory has been won.

For the purposes of this discussion it is assumed that you are an investor to whom the amount and dependability of dividends is a vital consideration. If you are that type of investor—make no mistake about it—your income from common stocks will be less this year, unless you have taken the precaution to weed out all borderline issues, supplanting them with others which hold out the promise of greater income security. This weeding out process may mean that investors will have to part with certain issues to which, probably for good and sufficient reasons, they have become "wedded." It will mean, as already pointed out, the elimination of certain blue ribbon issues. Now, I realize that to suggest that an investor sell American Telephone common stock, for example, and replace it with a second grade railroad bond or a second grade preferred stock may seem something less than conservative. Nevertheless, we are concerned with the maintenance of a reasonable and dependable income—we are going to be realistic—we are going to attempt to get the most suitable investment medium which fits in with conditions today, not yesterday or tomorrow.

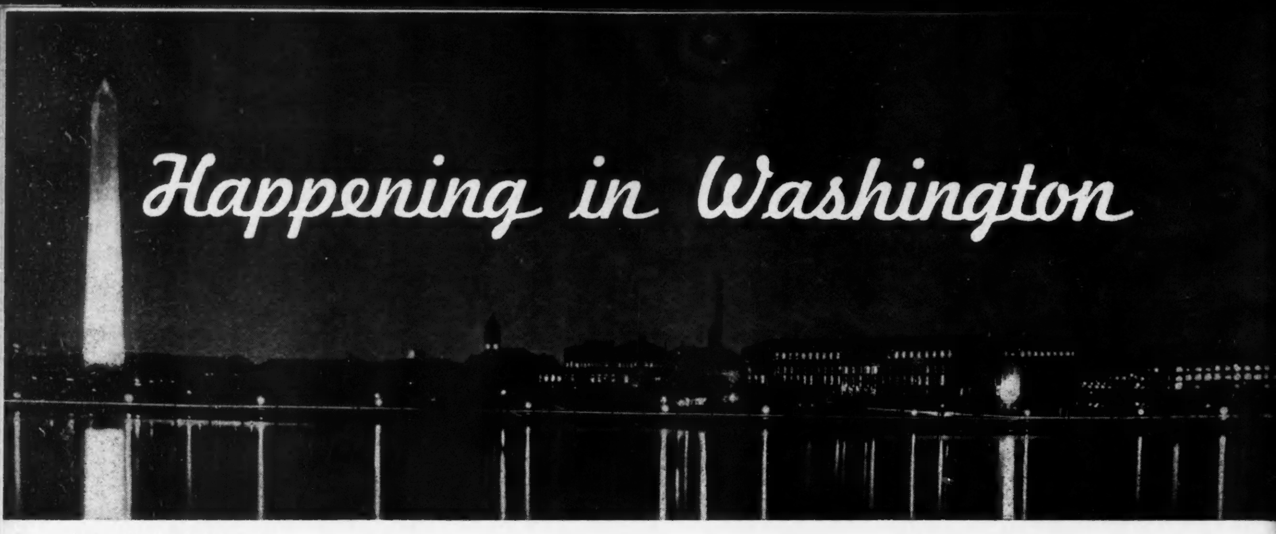
Selected Medium Grade Bonds and Preferred Stocks for Income

Issue	1942 Price Range High Low	Recent Price	Current Yield %
Baltimore & Ohio 1st 4s, 1948	65⅛-59¾	64	6.25
Certain-teed Products 5½s, 1948	87½-80⅞	87	6.32
Chicago Great Western 1st 4s, 1988	67½-61½	65	6.15
Cleveland Union Terminal 5s, 1973	83¼-75½	82	6.10
General Steel Castings 5½s, 1949	98¼-95½	98	5.61
Southern Pacific Pef. 4s, 1955	70½-61⅜	70	5.71
Southern Railway 4s, 1956	69 -60⅝	66	6.06
United Drug 5s, 1953	97½-91	92	5.43
Preferred Stocks			
American Bank Note, $3	47 -41¼	42	7.14
American Sugar, $7	97⅛-78¾	85	8.24
Columbia Pictures, $2.75	27 -24	27	10.0
Curtiss-Wright "A", $2	25⅞-21⅛	23	8.70
Distillers Corp.-Seagrams, $5	77⅝-70	77	6.49
Houdaille-Hershey "A", $2.50	34 -27	33	7.58
Radio Corp. of America, $3.50	54¼-47½	49	7.14
Sharon Steel, $5	60 -53	55	9.09

There is, of course, no wholly reliable rule of thumb method by which the investor can readily determine those issues on which dividends seem likely to become a war or tax casualty. Each issue should be judged individually on its own merits, or lack of them.

But many stockholders might well act to advantage by taking their cue from the remarks by C. M. Chester, Chairman of General Foods, at the stockholders' annual meeting. Now General Foods most certainly is not a "war baby." Yet if the Treasury's tax proposals are adopted, it would mean that the company would be liable for taxes equal to 88¾ per cent of total earnings before taxes. If by heroic efforts the company is able to effect economies, on the one hand, and expand its sales substantially on the other, only 11¼ cents out of any dollar saved or taken in would be added to net profit.

The thing to do then is for you to get out the annual report for 1941 of any company in which you are a stockholder. Allow 55 to 88¾ per cent of total earnings for taxes, depending upon its status as regards excess profits, and then see what effect this would have had on earnings. Not very reassuring in many cases. But this is not all. Take a look at the balance sheet. Remember that taxes must be paid in cash. It may be that your company has found it necessary to expand its inventories abnormally, or the (*Please turn to page* 48)



Happening in Washington

Charles Phelps Cushing Photo

BY E. K. T.

Conversion crackdown on drug and cosmetics industries is in the making. Both have avoided the war parade by prayerful pleadings. They have declined to submit conversion schedules, have ired W P B policy shapers by insisting they're essential industries and entitled to scarce materials. W P B has finally lost patience, told both industries to formulate conversion programs or be converted by mandate. *Further delay won't be tolerated.* A substantial portion of the industries can and will be shifted into war activities. W P B thinks the country can limp along without patent medicines and cosmetics knick-knacks. My Lady will still be able to buy basic beautifiers but not such a variety. She won't have to forego her "war paint."

Washington Sees:

General price freezing, probably with some moderate form of wage control, is in the wind. Because of belated application, it will work inequitably by freezing many maladjustments. For instance, most retail prices are below levels that would be justified by current wholesale prices. Hence blanket freezing would hit retailers harder than wholesalers or manufacturers.

Present selective price control is actually working well, within the limits of application. Commodities on which Henderson has placed ceilings, including practically all industrial raw materials, have been stable for months. Biggest inflation is in commodities and goods derived from agriculture. This inflation is partly political and control moves are more so. Scarce silk (controlled by Henderson) has advanced only 19 per cent since war started in 1939; plentiful cotton (not subject to Henderson control) has advanced some 133 per cent.

All "free" prices, which covers vast majority of retail items, will continue to rise until the Government cracks down. Soundest and most effective check would be to mop up excess consumer purchasing power through genuine consumption-reducing taxes.

Axis friends in South America are soon to receive the brush off in Washington. After months of patience, the State Department is about to become realistic with Chile and Argentina. Until those two nations break with Germany they will find Administration hospitality on the wane.

Submarine menace to our sea lanes with Central and South America worries men here more than press reports might lead you to believe. Vital materials from which we were cut off by the fall of Singapore and Java *must now come from our southern neighbors and must come by boat.* Already Latin Americans are reflecting an understandable reluctance to risk their goods and bottoms in sub-infested coastal waters. The Navy and Air Force have been told torpedoings must be halted in these lanes—and must be halted regardless of cost.

President Roosevelt has ordered an investigation of paper consumption by Federal agencies. Here's a tip, Mr. President, if somebody hasn't already wised you up. The War Department still issues multiple-page press releases *printed on one side only.* W P B prints on both sides. Other outfits do likewise. But not War Secretary Stimson's aggregation.

By the bye, why not eye unnecessary paper usage by Congress? Congressmen still pad the Congressional Record with irrelevant material—speeches never made, letters from chronic kickers, newspaper articles, etc. *Thousands of pages of that stuff* are printed in the Record every year. Costly, wasteful.

Commercial airlines appear to be at the bottom of the equipment shortage graph. They'll go through the summer with inadequate facilities to accommodate growing traffic demands. By fall they should receive new planes. Aircraft production is expected to reach such a tempo before autumn frosts that W P B will permit deliveries to commercial operators. Incidentally, talk of the Government taking over the lines is regarded here as bogus. The air carriers are doing a fine job. Federal intervention is unnecessary, undesirable.

Get set for the shock of war adjustments. You've been hearing and wondering about such things in a vague sort of way. Now you're about to see — and feel — them

Influence of the war on the country's economy has been rather mild except for the boom. That phase draws to a close. Now the war is to permeate everything, is to dominate the trend.

As consumers you'll see luxury goods vanish, essentials rationed on ever widening scale. The lower standard of living will emerge from the ponderosity of a social doctrine to a grim reality. Your money constantly will buy less. You're going to get hurt.

As businessmen you'll subordinate your own judgment to Washington mandates. More and more you will rely upon centralized government — for financing, for directives, for permission to fabricate scarce materials, for permission to survive. Temporarily, at least, competitive economy is to vanish. That's the outlook, grotesque but real. We must condition ourselves to make the best of it.

The Treasury has lost its fight to shape the new tax bill. The House legislative wringer will squeeze the Morgenthau plan beyond recognition. Essentials of the Treasury proposal are obnoxious to an election-minded House, can't survive in this election year, but may be reincarnated by inevitably new 1943 revenue legislation. Right now Congress is unwilling to endorse such Morgenthau ideology as taxation of outstanding state and local securities, repeal of depletion allowance, and brutal boosts of individual and corporation income tax tolls. Even with a war going on Congressmen have learned they must play politics to stay in Washington.

Sales tax approval by the House now appears assured. The Ways and Means Committee will report out such a levy, will thus head off — at least temporarily — breath taking hikes in income assessments. Senate opposition to a sales levy will be more obstinate. It's well to remember that labor is against any sales tax and that labor has more influence in the Senate than House.

Food control has stirred up a triangular row between War Production Board, Agriculture Department, Office of Price Administration. Agriculture Secretary Wickard has been plotting for months to become top food man. That irks WPB dollar-a-year men from the food industry. They have recommended an independent food administrator, are now awaiting with crossed fingers a decision by Nelson. OPA Administrator Henderson says fudge to both these schemes — his is the logical agency since he's already ration boss. There's genuine danger this tongue wagging may spawn an unsatisfactory compromise, with piecemeal control going to all three cliques.

Price Administrator Leon Henderson has blundered the nation into an inflation whirl. His selective price fixing system is not enough. It will be displaced by a general price freezing gesture. By the time you read this, the new order may be out. Henderson, more than any other individual in Washington, was responsible for persuading Congress to forego a general price fixing law. He went to Canada last year, came back and convinced Congress the inclusive Canadian plan wasn't workable. He lobbied for and got a law fixing no prices, empowering him to curb rises by placing ceilings on key commodities. Now by executive order his inadequate formula is to be expanded into overall price fixation. Henderson's aides expect far flung confusion, hope for the best, hope to minimize friction by speeding exemptions.

Jesse Jones' power is on the wane. Signs have been unmistakable since the synthetic rubber lag emerged as a public reality. Any lingering doubt was dispelled when the Senate unanimously passed the Murray small business bill turning small business conversion over to Donald Nelson. Jones lost a back alley fight against this legislation in the Senate. The House will OK the Senate decision. Mr. Jones is essentially a banker.

War Department will continue buying tons of dehydrated foods, not by choice but by stark necessity. Privately, the Army would like to scorn the de-watered eatables for two reasons. (1) Flavors are unsatisfactory. (2) Packaging is inadequate. But shrinking transportation facilities require ever growing use of dehydrated items. Meanwhile the Army itself is experimenting with flavors and packages.

Forty-hour week is not to be suspended — not now — perhaps not during the war. Labor is against suspension. Most of industry is against suspension. And Congressmen who went home for the Easter recess are returning with word the public is against suspension. That combination of facts more than offsets the continued clamor against overtime pay in the South. Congress may, likely will, write some sort of a little labor bill to preserve its self-esteem. This might freeze the closed shop, outlaw jurisdictional disputes, prescribe an exact formula for presidential seizure and operation of strike-bound plants. But the 40-hour repealer is on the shelf collecting dust.

Fixed percentage ceiling on war profits won't be imposed. Congress prefers two-pronged substitute (1) authorizing Army and Navy to renegotiate contracts in event of exorbitant profits and (2) reclaiming over-payments through excess profits taxation. There's nothing new in that program because (1) Army and Navy already can and do renegotiate contracts and (2) stiffening of excess profits tax has been in the works for months. Fixed profit limitation won't be prescribed because it's essentially unworkable.

Overall wage fixation isn't in the cards. The President and Congress are agreed on that. Legislation will rather aim at curbing runaway wage boosts, will be flexible enough to permit a fattening of pay envelopes for lower bracket workers.

Securities & Exchange Commission is rapidly becoming the forgotten agency of the New Deal. That truculent reform outfit failed to win any assignment in the war effort, rapidly lost its most capable men. Now it has been booted out of Washington, is seldom mentioned. But you'll hear again from the SEC in post-war financing.

Commerce Department officials are worried by tendency of Latin American merchants to jack up retail prices of United States made goods. Consumers blame manufacturers for the hike. That backfires on the good neighbor policy. No simple cure for this newest sore spot appears. Price control law can't reach it and withholding exports would only aggrevate the trouble. Commerce men are urging manufacturers to pressure their foreign agents against price boosts, are hoping but aren't confident this may stem the rising trend.

Army Air Corps is in desperate need of training equipment. That's because production of training planes has been subordinated to manufacture of combat ships for lend-lease. One result has been the mounting crash rate bringing death to under trained fledgelings sent aloft in fast, tricky fighters. Army men hope the plastic trainer developed by Fairchild will break this bottleneck.

TRANSPORTATION: *Key to Our War Effort*

BY WARD GATES

Charles Phelps Cushing photo.

The number one problem in our transportation set-up is ocean transportation.

You must keep munitions and troops moving in order to win a war.

With the world as our battle ground and our war effort dependent upon imported raw materials, domestic movement of supplies and men; and export of finished war material, it is easy to appreciate just how vital transportation is today.

Because of the vast improvements in transportation facilities within the past decade the world has grown smaller, but it hasn't shrunken to a point where distance ceases to be a factor. During the last war, while the Allies were hammering their way to victory over the Kaiser's troops, the paean of impending victory was largely summed up in the words of a popular English war song "We've got the ships, we've got the men, we've got the money too." "Ships, men and money," was the cry of victory in 1918; today, I suppose, the cry should be "We'll deliver the goods to Berlin, Rome and Tokyo."

Never in our history have we been called upon to move so much, so far, so speedily and so steadily as today. Every medium of our vast transportation system is not only taxed to capacity, but enemy action and shortages of some raw materials impose a burden only Yankee ingenuity could hope to solve.

To present comprehensively a panorama of transportation's role in the war effort means a giant canvas. It means the inclusion of everything from the lowly, almost forgotten trolley car and horse drawn vehicle, to leviathans of the sea and super-cargo ships of the air; it means the transportation of workers to and from the factories and their homes; raw materials from lands beyond the sea and delivery of fighting men and machines where they can strike the most effective blows. All of these variated forms of transportation, to be efficient, must be coordinated, must operate on a smooth, yet flexible schedule, to meet constantly-changing conditions and increasing demands.

The number one problem in our transportation set-up is, of course, ocean shipping. Faster ships don't make for fewer miles even though they make for fewer hours. However, for safety sake much of our ocean shipping travels in convoys where the speed of the convoy is regulated by the speed of the slowest craft. And some of these older ships are slow. U-boats and bombing planes have claimed millions of tons of Allied shipping. The Battle of the Atlantic has see-sawed considerably and the Battle of the Pacific is still an important factor. Jap submarines and bombers haven't played as important a role in merchant ship sinking as have their wolfish brethren in the Atlantic and Mediterranean, but every ship, with its precious cargo, that goes to the bottom imposes that much more strain upon our war effort and resources. We are building ships, hundreds of them, with a speed that is gratifying, but the Battle of the Atlantic is still going against us. It is true we only hear of the ships that are lost at sea; nothing about the hundreds which arrive weekly with war cargoes; but those losses, especially in tankers, are still too great.

Plans have recently been completed in Washington for an assembly line program which is expected to produce 200 merchant ships totaling about 14,000,000 gross tons, within the next 18 months at a total cost of $385,000,000.

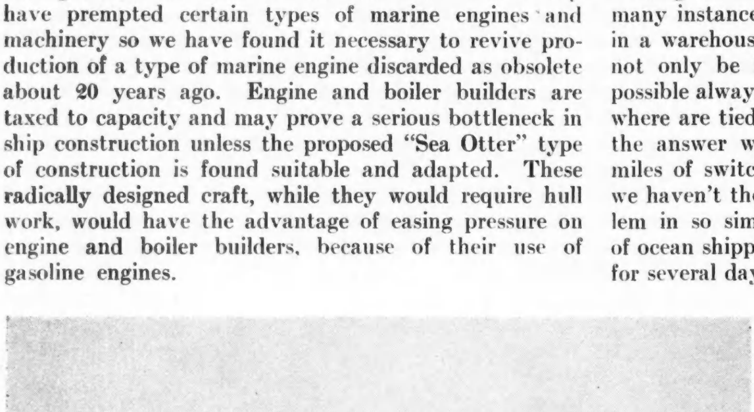
In other words we plan to spend but six per cent of the $137,000,000,000 war appropriation for merchant ships, because the $385,000,000 brings the total merchant ship expenditure to $7,958,000,000. That is only a small proportion of gross war costs for a most essential requirement. Yet, it is a giant step when measured by previous ship building. From 1914-21 inclusive American shipyards built 1,988 steel merchant ships aggregating 10,065,297 gross tons. Add to this 385 wooden ships of 1,011,282 gross tons; 13 concrete ships of 64,108 gross tons, 18 composite (wood and steel) ships aggregating 44,367 gross tons, or a total of 2,404 ships, totaling 11,153,595 gross tons, and then you can realize how ambitious our present program really is.

The story isn't as optimistic as it sounds. Up to the end of January American shipyards have been behind on schedules. Since then there has been a spurt, with indications increased production will be maintained. In January we completed 15 ships, but the three months immediately preceding it showed a total of only 38 completed ships. In that same period 59 ships were launched and launchings are becoming a daily habit. So much for construction of the ships themselves. Remember, it takes more than steel plates and rivets to build a ship. There is that matter of propulsion to be considered. While we are building a merchant fleet the Navy is building a war fleet greater than has ever been built before and they have prempted certain types of marine engines and machinery so we have found it necessary to revive production of a type of marine engine discarded as obsolete about 20 years ago. Engine and boiler builders are taxed to capacity and may prove a serious bottleneck in ship construction unless the proposed "Sea Otter" type of construction is found suitable and adapted. These radically designed craft, while they would require hull work, would have the advantage of easing pressure on engine and boiler builders, because of their use of gasoline engines.

The importance of ocean transportation was recently summed up by Robert H. Patchin, vice-president of W. R. Grace & Co., who outlined six steps necessary in the drive for the construction by the end of 1943 of 2,300 vessels aggregating 23,000,000 deadweight tons. First, he said, complete the ships as planned; second, train 20,000 merchant seamen and commission the necessary officers to man the new ships as they come off the ways; third, utilize the merchant marine to the best advantage by efficient assignment and routing of vessels, fast loading and discharging of cargoes and avoidance of port congestion; fourth, maintain our lines of supply, not only to foreign fronts, but to and from foreign sources of strategic materials, such as Latin America, Africa, Australia, and later on countries which will be retaken from the enemy; fifth, fortify the good neighbor policy by maintaining shipping services for the things we need from Latin America and the things they must have to live, and, sixth, replace suspended passenger ship services to Latin America with increased air transport service.

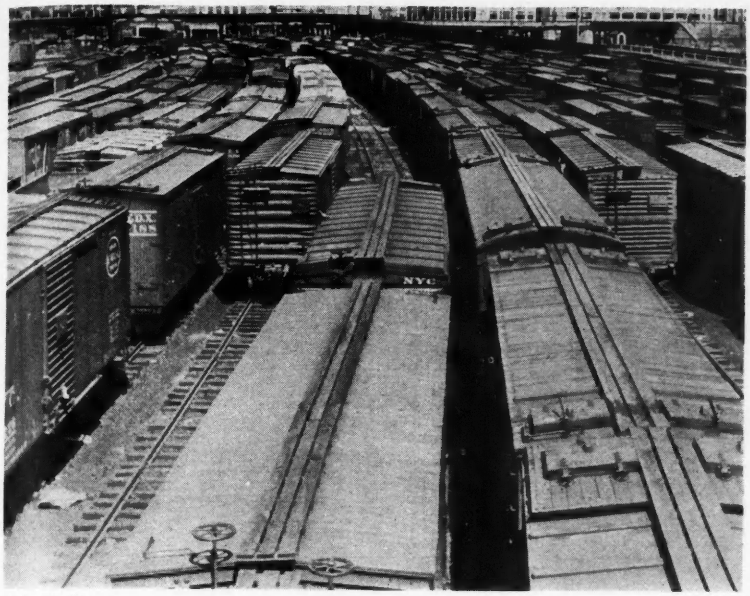
Freight Piling Up

Lack of shipping has brought about another important problem. It is seriously crippling our rail transportation system. Freight cars are piling up in seaport yards waiting for ships. Warehouses are filled to capacity in many instances and to unload the cars, store the goods in a warehouse, and then load them aboard ship would not only be impractical and wasteful, but isn't even possible always. Freight cars that are badly needed elsewhere are tied up and add to the confusion. Of course, the answer would be "build more cars and lay more miles of switching tracks." Only this is war time and we haven't the time, nor the material to solve the problem in so simple a fashion. Where there isn't a lack of ocean shipping cars are often permitted to remain idle for several days and recently the Timken Roller Bearing Company offered a solution on that score. A six-month test they have conducted at all company plants showed the feasibility of large freight car time savings. Enough, in fact, if employed nationwide to supply the roads with the equivalent of almost 120,000 freight cars without the actual building of a single one. Last September the management got to work on the problem. They sought to eliminate demurrage charges, which after the first forty-eight hours amounts to $2.20 a day for four days and $5.50 a day a car hereafter. The average box car contains about 360 square feet of floor space and 3,000 to 3.500 cubic feet of space. At $5.50 a day demurrage this amounts to 46 cents a square foot a month, as compared with an average warehouse rental charge of 3 cents a square foot a month, including sprinkler system and heat. Cars formerly had been retained at Timken for an average of 50 hours, 38 minutes. This time has been cut to 29 hours, 31 minutes, a saving of 21 hours, 7 minutes.



Ewing Galloway

Cargo airplanes will play an increasing role in our war effort.



Triangle Photo

Freight-cars are piling up in seaport yards waiting for ships.

The railroads own about 1,700,000 freight cars which average 30 trips a year. If each of these trips were shortened 21 hours and seven minutes, there would be a gain of 3,589,833 car trips, equivalent to 119,661 new cars. This is vitally important as delivery of new rolling stock has been sharply cut down by the War Production Board. Hereafter W P B will dole out locomotives and cars as they deem necessary. It is anticipated that during the last eight months of this year the railroads may be allowed less than 25,000 new freight cars, less than 600 new locomotives, despite a request for 130,000 cars and 1,200 locomotives. This is due, of course, to the shortage of metals.

Class I railroads of the nation purchased more fuel, materials and supplies in 1941 than any year since 1929. Such purchases totaled $1,161,274,000, an increase of $306,811,000, compared with 1940. In 1929 purchases of fuel, materials and supplies totaled $1,329,535,000.

That the railroads are confronted with a problem of major importance none will deny. That they are contributing largely to our war effort is conceded. After years of being in the financial "dog house," with more receiver and trusteeships to the square foot than most all other industries to the square mile, the railroads are coming into their own. There is somewhat less concern over the long-term future of the railroad industry, even though the immediate outlook is cloudy because of difficulty in procuring new equipment and the extra passenger and freight load they are obliged to carry.

Ernest E. Norris, president of the Southern Railway System, summed up the situation before the Bond Club of New York when he said: "Today, the railroads are turning in a 100 per cent plus job of living up to their pledge made in November, 1940, 'to meet to the full the demands of commerce and the needs of national defense.' So far not a single shipper in the United States, including Uncle Sam and all the family of departments and alphabetical agencies—War, Navy, W P B, Lease-Lend and all the rest) has been told that he cannot have all the rail service he asks for, when and where it may be needed."

Need More Trains

That we are actually confronted with a future shortage of passenger facilities on common carriers which will interfere with vacationists' plans, is evidenced by a recent statement of Joseph B. Eastman, Director of Defense Transportation, who said: "A heavy increase in passenger traffic on railroads and motor bus lines is to be expected in future months. Military movement will account for a substantial share of this increased traffic. Passenger carriers will be called upon to provide greatly expanded services for the transportation of military personnel. Trains and buses will be needed to move troops to camps, military posts and embarkation points, and to carry men to and from home on leave.

"At the same time civilian passenger traffic is certain to reach much higher levels than those of recent years. The fact that more people are employed, and at higher wages, will bring an increase in both business and pleasure travel. Another and probably more important cause of the upswing in traffic will be an unprecedented shift from private automobiles to common carriers. As a result, many new rail and bus commutation services will be needed.

"From now on, therefore, self-imposed restrictions on non-essential travel will be in order. Conventions, pleasure trips, vacations, or other activities involving non-essential travel should not be planned without consulting railroad or bus companies. The Office of Defense Transportation has been advised by some recreational interests that they are encouraging vacations at places close to home, so that travel is confined to a minimum. In present circumstances, this approach seems to be sensible and realistic.

"President Roosevelt has expressed the view that 'recreation as usual' should be limited to such activities as serve to promote the national war effort. The O D T is not primarily set up to evaluate vacations and recreational needs. It is obvious, however, that vacations and recreational activities necessitating travel which might interfere with more essential transportation needs do not promote the war effort. This office is highly sympathetic with the growing practise of staggering vacations over the entire year. The old custom of confining vacations to the months of July and August causes a travel peak which, under present conditions, the carriers could not satisfactorily meet. It may be necessary in the future to restrict large-scale civilian passenger movements at certain periods or in certain areas. Accordingly, the dates or places of conventions and meetings already scheduled may have to be changed. No general rationing of rail or bus passenger tickets is contemplated, however, for the immediate future."

In Britain they have recognized the fact that part of the

Battle of the Atlantic is being fought out on land. After two years of preparation British railroads are ready for the supreme test of all-out Blitz or invasion. Elaborate preparations have been made to keep the transportation system of the British Isles intact under all circumstances, to provide underground shelters for workers, for auxiliary communication systems, while vast stores of replacement equipment for switches, rails, signal boxes and towers and other destructible equipment is ready and stored in safe, but adjacent points. Since the start of the war the management of all Britain's 50,000 miles of roads have been pooled under a committee of railroad executives. They are responsible to the Minister of War Transport. To that extent it is government control, but the shareholders continue to get about the same dividends they were accustomed to get before the war and the government foots the bill. At present troop trains, coal, munitions and other war materials make up about 60 per cent of all rail traffic, for which the government pays on the basis of specially reduced rates.

Added to this the government gives the roads 43,000,000 pounds annually, which cancels out otherwise inescapable deficits and leaves just sufficient to pay the usual dividends. The rate averages about three and one-half per cent.

In Australia railways are publicly owned. The policy there is a program to curb road transportation with restrictive regulations in order to prevent the railways from becoming a burden on consolidated revenue, and to free them, as much as possible, to handle war goods. It may be worth while to pause and reflect that Australia, with public ownership of the railroads, has a poor transportation system. In the first place there is no standard gauge, and, on trans-continental trips goods must be loaded and unloaded several times, at great loss of time and added expense. The single track line running to Port Darwin, at present, is insufficient and a military road was rushed through for motor vehicles.

Recent American freight rate increases, plus additional passenger and freight business more than make up for additional operating expenses, according to most railroad officials. As a consequence there has been a considerable investment in railroad bonds of all types in the past few months. The increases in freight rates granted by the Interstate Commerce Commission is calculated to produce $203,000,000 additional revenue annually, according to 1941 traffic figures—which, will prove inadequate. The rate increases amounted to about two-thirds of what the railroads asked to offset wage increases granted employees last December, as well as to make up for other increases in operating expenses.

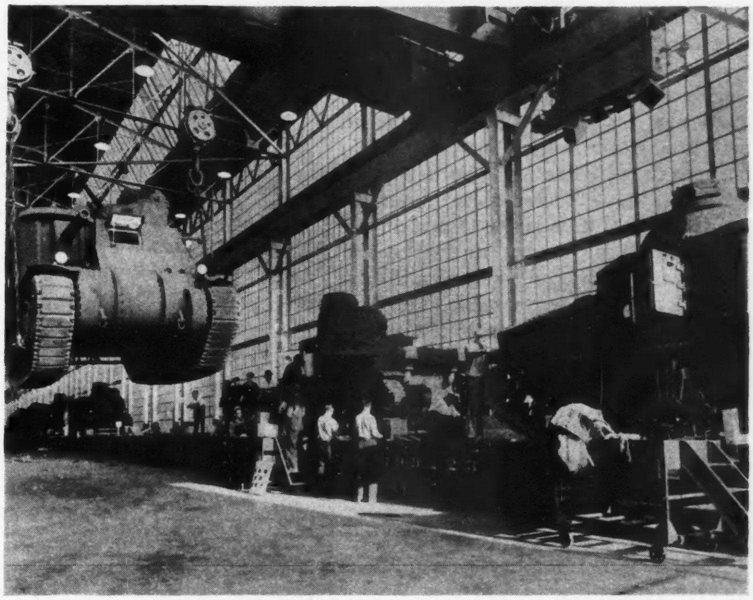
A modern picture of transportation without including both passenger and freight airplanes is no picture at all. Let us view it first from the military standpoint. Aerial warfare, which may decide the war, is now entering two new and most important phases. The first phase is troop transport with its attendant hauling of guns, muntions, supplies and other equipment, and the second is the extended use of the torpedo plane. Troop ships of the air with their constellations of gliders, as used in Crete by the Nazis, are a definite part of the military picture. Planes capable of carrying tanks and field guns are flying the skies today. Airplane delivery of heavy gold mining and gold dredging machinery to the wilds of the Yukon and Alaska has been a fact for a number of years. Heavy pay loads of freight have been carried across this country, across the Andes of South America and to the Far East for a number of years.

Gendreau Photo

Scenes like this are something we won't see for some time to come.

The lesson of Bataan proves the need for air freighters and troop transport planes. Aviation industry chiefs are hopeful the manufacturing quota for transport planes will be increased. If we had a large fleet of these ships we could use them to transport supplies and men to our far flung battle-lines. Of course they would have to be protected by fighter planes and could not be used, with safety, on trips too long to permit adequate escort. At present we are constructing several hundred huge air freighters and transports with a fairly long cruising range; sufficient to span the Atlantic at least. But both military and aviation experts believe the number, in proportion to the aviation building program, is too small. Provided there are adequate landing fields for these planes and they can be properly protected while over hostile territory, an armada of such ships might mean the balance of power for this country. It is genally believed that as soon as the war ends airplane factories will devote considerable (*Please turn to page 52*)

War Producers Geared for Peace —The Automobile Companies



Chrysler tanks being loaded on railroad cars.

If anyone is seeking a brief dramatization of America's war effort, he would do well to look at the back of the Chrysler annual report for 1941, where the words, "Products of Chrysler Corporation—War Materials," appear.

Perhaps better than anything else could do this epitomizes the revolution going on in Detroit, a revolution that almost overnight has changed a peace-time industrial giant into the world's greatest single arsenal of democracy. The automobile industry has but one slogan today, "produce." It has forgotten all consideration of profits. It no longer asks itself whether this or that will pay, but whether it is the quickest way to get the guns, shells, planes and tanks to the firing line.

Few people have any conception of the magnitude of the task undertaken by the industry and fewer of the sacrifices entailed. It is easy to say that General Motors has war contracts of $6,000,000,000, that the Chrysler and Ford orders are huge, or that the back-log of the smaller firms, such as Packard, Hudson, Studebaker, Willys-Overland, White, Yellow Truck and Mack Truck totals well over a billion dollars. It is hard to visualize what this means in the way of complete disruption of peace-time customs, of the tremendous problems involved in the change-over to a full war status, of the enormous demands that will be made on the industry's financial resources, or the great levelling that is occurring in earning power.

Perhaps the most overlooked of today's automobile stories is this one about finance. The entire country knows that assembly lines have been ripped out, machines greased, covered with tarpaulins and stored in vacant lots, that huge new plants have been constructed and old ones rearranged and retooled. Only a few realize what a contribution towards the war effort the industry is making in the way of direct financial outlay for which its chief return will be simply the knowledge of a job well done. It is easy to make the misleading assertion that the motor manufacturers will eventually acquire huge new facilities at public expense, which have been or will be constructed for the account of government agencies. It is another thing to understand that not over 30 per cent of the plant is on the average adaptable to peace-time pursuits and that all that is used must be retooled and rearranged. It is just as easy to assume that the tremendous volume of output which will soon be flowing from the assembly lines will cause huge profits, when the truth is that earnings will not be excessive, and, for some of the larger companies, will probably be below anything in recent years.

The principal features of the financial story are the speed with which the industry can get into full war production, the extent of final war time capacity, the margin of profit which can be reasonably expected on war work, taxes, the demands which the war effort will make on financial resources, the extent of possible dividends, and, finally, what this all means to the industry when peace returns.

Some of these questions are already answered. Certain of the smaller concerns, like Willys-Overland, are now 100 per cent converted and are going ahead at full speed. For other questions, such as the volume of production which may be expected at full war time capacity, there is probably no definite answer, as any estimates made now could be dwarfed by later plans. Still others appear to lend themselves to analysis with more assurance. Earnings trends, for instance, are fairly

evident, not only because profit margins will fall within a narrow range, but also because of the limitations of taxes. What will happen after the war can best be expressed in the words of President C. E. Wilson of General Motors, who when asked whether the company would continue experimental work on automobiles during the war period, answered, "we have stopped thinking about it."

Progress of Conversion

Complete conversion of the automobile industry to a full war time basis cannot be expected until about the beginning of the fourth quarter of the year. Changeover efforts made so far indicate that it takes about 7½ months to convert existing buildings and machinery to war work and 8 months to build new ones. This does not mean that production will not gain speed in the meantime. The huge Ford bomber plant will be completed ahead of schedule, General Motors is apt to add 50 per cent to its war output quarterly and conversion work elsewhere will be speeded as much as possible. It does indicate that some 8 months after January 31, the day work on civilian cars ceased, the industry will be ready to put forth the greatest production effort in history.

How much it will produce is another matter. Chrysler spent $24,451,475 on munitions facilities last year, and is undertaking additional expenditures of $60,000,000 for expanding its munitions and tank making capacity. Production should continue to increase steadily as new plants are opened and when work now under way is completed capacity should be around $1,750,000,000 a year.

General Motors will spend $66,000,000 of its own funds for new facilities, exclusive of tools and dies, when present projects are completed. In addition, other facilities costing $349,000,000 will be, or have been, constructed under contracts for account of government agencies. The General Motors final capacity is unstated, but it may approximately double that of Chrysler. Other manufacturers have spent large amounts. It would take more than an expert, however, to estimate what this means in the way of dollar volume when the job of conversion is complete. The guess would probably be rendered obsolete by new plans the day it was made. But new production records by a tremendous margin are a certainty.

Now, because the country knows that the automobile industry will produce war goods in vast quantities, many people have gained the impression that profits will be just as huge. Nothing, however, could be further from the truth. Admittedly margins have been large on some of the goods turned out heretofore, but this was due in some measure to the presence of foreign contracts, and, to perhaps greater degree, to the difficulty in estimating costs on unfamiliar work. With more production experience, the latter situation no longer exists. The wide profit margins are unquestionably a thing of the past, and need not be expected to return while the war lasts.

One of the most astonishing developments of the war effort on the motor companies is the tendency towards a levelling of earnings. Profit margins on war contracts, of course, cannot be estimated with complete accuracy, but there is considerable evidence that they will not vary greatly from 6 per cent. This is not necessarily a question of legislation. Admittedly, successful agitation for the imposition of a 10-2 per cent sliding limit on government contracts and renegotiation of existing agreements could reduce earnings substantially for that part of the industry which would have to work at the lower limit.

In January finished motor cars were coming off the Plymouth assembly lines at the rate of three a minute.

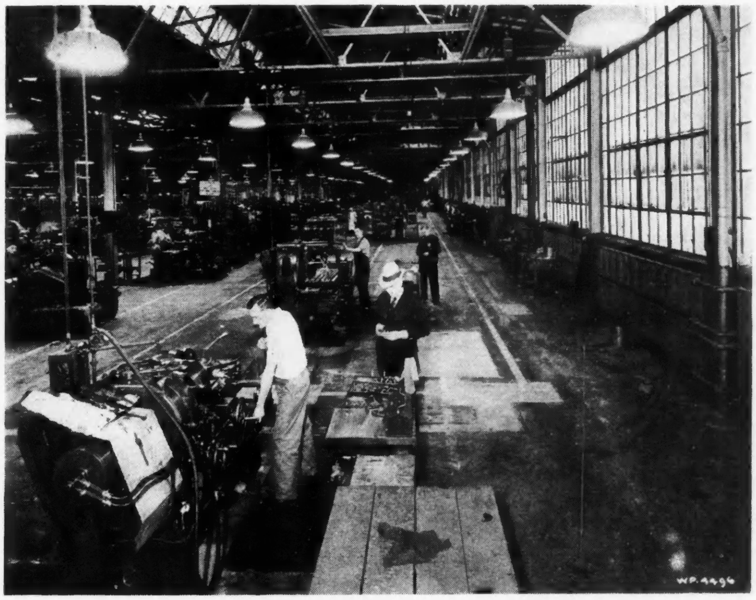
It is more likely, however that profits on war materials will be left to negotiation. This does not necessarily mean huge earnings. In such a case, something like the 6 per cent suggested by Mr. Nelson as a fair rate would probably prevail. The industry also seems agreed on this, it can be inferred. President Keller of Chrysler, for instance, stated some time ago that the profit ratio of the corporation would be less than on normal work, or in terms of the 1941 operating rate that it would be less than 7.5 per cent before taxes.

The effect of a more or less stable 6 per cent limit on government contracts would be to favor the independents over the "Big Three." This would be just the reverse of peace-time and would lead to some unexpected results. Under this rule General Motors would probably be the hardest hit of any company in the industry, since its normal ratio is the highest.

In 1941 the company's ratio of net before taxes to sales was 20.1 per cent. This provided an operating income of approximately $490,000,000 on net sales of $2,437,000,000. As about $34,000,000 of the net con-

sisted of non-taxable dividend and interest income, it must be deducted from the operating figure, but when this is done there is still net of $456,000,000. The result would have been quite different had a rate of 6 per cent been effective, for then operating income would have been reduced to around $146,000,000. The full extent by which earnings would have declined can be shown by completing the calculation. Adding the non-taxable dividend and interest income, applying the effective normal and surtax rate of 31 per cent, and adjusting for preferred dividends, net after taxes would have approximated $2.85 a share, instead of the $4.44 actually reported.

Next to General Motors, Chrysler would be the most severely affected. The reduction of earnings of that com-



In February, hundreds of machines were already engaged in armament production.

pany in 1941 would have amounted to 17 per cent as compared with 36 per cent for General Motors. Chrysler's net before taxes was $68,814,000 in 1941, and the operating ratio was 7.5 per cent. Applying a 6 per cent ratio to net sales of $888,400,000, net income would have approximated $7.65 instead of $9.22.

Unlike Chrysler and General Motors, those independents which have more or less consistently operated in the red for the past decade actually would be aided. Willys-Overland, Hupp, Packard, Studebaker and Hudson, on an operating basis of 6 per cent should show returns in line with the best in many years. The statement is also true of the truck manufacturers, who, in addition, are favored by the fact that they can use some 95 per cent of their normal facilities in war work.

Evidently, at least for the duration of the war, a considerable change is going on in the relative status of the various companies, which is not being given full recognition in estimates of earnings and dividend prospects.

This applies not only to 1943, when production will be in full swing, but also to 1942, when output of those last to convert should be under 1941. In the case of General Motors and Chrysler, for instance, sales this year are likely to be the second best in history, exceeded only by the records made last year, but earnings will be far from a new peak.

General Motors' output may approximate $2,000,000,000 in 1942, but its earnings will do well to reach the $2.17 a share level of 1938, when sales were only half that amount. Next year, despite greatly increased volumes and a probable exemption from excess profits taxes, higher normal and surtaxes will cut sharply into the already relatively slim profits caused by an effective limit on war contracts. Even when full capacity is reached in 1943, earnings of the company on a per share basis will probably be less than those of some of the independents like Studebaker, which will have a war goods capacity of better than $250,000,000 and, for which, earnings should be at the best level of recent years, in spite of the impact of vastly higher taxes.

On a per share basis Chrysler's earnings will probably remain the best in the industry, although the company will probably lose some of the advantage it otherwise holds over General Motors by coming within the excess profits bracket, and net income, on a percentage basis, may show somewhat of a greater decline.

Likewise, dividend policy of neither General Motors nor Chrysler is likely to be liberal. Both have too much at stake in retaining the sound financial position to take the slightest risk of impairing it in a war time economy. The demands of the war program will be tremendous on the financial resources of each. Chrysler has already negotiated a bank loan of $100,000,000, the largest single transaction of its kind in American banking history.

The financial problem is probably the only one which receives any serious attention in the industry's long range plans today. And here the consideration is undoubtedly limited to the prevention of obviously unwarranted practices. Yet no appraisal of the industry can be complete without some thought of what it faces with the coming of peace.

Peace-Time Prospects

One thing seems certain. A tremendous deferred demand for new cars will exist once the war is over. Not only will automobiles now in service be wearing out, but many people will be tempted to cash in their war savings and make new purchases.

Cars will be better and cheaper, increasing the potential demand. Greatly expanded production facilities for aluminum, magnesium and plastics will unquestionably speed their use. Mileage per gallon of gasoline may be doubled or tripled. Many of the lessons learned in war time production will be found adaptable to civilian use.

The position of the "Big (*Please turn to page* 48)

How The Can Companies Are Adjusting To War

Higher Taxes Likely to Reduce Net of Both American Can and Continental Can

BY A. BANCROFT WELLS

TIN for the cans of America may not be as much of a problem as was first feared.

It isn't the purpose of this article to infer that we have an abundance of tin available, that a shortage doesn't exist, nor is likely to become more acute; that we can win the war without tin. It is the purpose, however, to show that a shortage of tin doesn't necessarily mean a shortage of cans or containers, nor a shortage of food. There is a vast difference between a tin shortage and a can shortage.

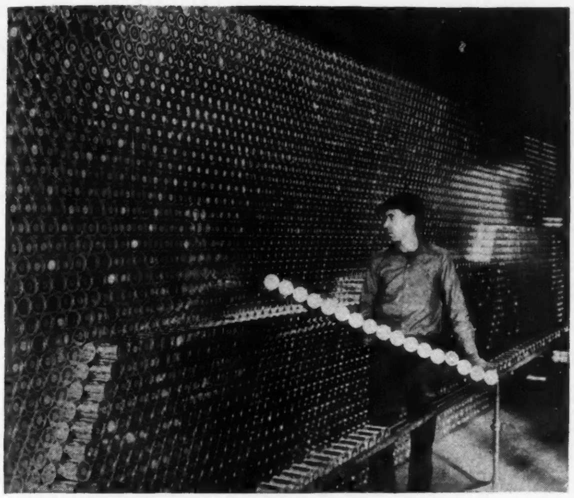
Before going into the details of how we can still have cans without tin, it might be of interest to mull over a few facts about the sources and available supply of tin itself. When we first entered into our defense program the Government designated tin as a strategic material and, with foresight, took steps to build up a reserve stock in this country because virtually all of this vital metal must be imported from foreign sources. Out of a total world production in 1940 of approximately 232,000 long tons, Bolivia produced 16 per cent; the British Malay States, 37 per cent; the Dutch East Indies, 19 per cent; Thailand, 7½ per cent, Nigeria, 5 per cent, and all other sources, 15½ per cent. For the first ten months of 1941 world production increased about 10 per cent over production for the same period of 1940. United States imports in 1940 amounted to 124,810 long tons, or 54 per cent of world production, and, in 1941, the nation's imports were estimated to be in excess of 135,000 long tons.

During 1940 we consumed 74,050 long tons of tin, of which amount 40,000 tons were used in the manufacture of tin plate, 11,430 tons for solder, 4,120 tons for babbit metal, 9,700 tons for bronze, collapsible tubes and foil, and 8,700 tons for all other uses, including the manufacture of terne plate. Due to the large increase in the 1941 demand for the products of the can manufacturing and other industries using tin, consumption here was estimated to have increased to about 100,000 tons, or one-third more than that used in 1940.

While official figures are unobtainable it was estimated that a total of approximately 113,000 tons of tin was available in the United States at the end of 1941, not including tin, estimated at 25,000 tons, contained in tin ore held for smelting at a new tin smelter, now under construction at Texas City, Tex., and about ready to start work. Much of this ore was received under the Government's five-year contract negotiated in 1940 with Bolivian producers, providing for delivery of ore (formerly smeltered in Germany, England and Holland) direct to this country for smelting. That means we had a total supply of tin approximating 140,000 tons at the end of last year, sufficient to last about 22½ months at the 1940 rate of consumption and about 16½ months at last year's high rate of consumption. However, with conservation of tin in force, with demetalizing of used cans, and with a tapering down of requirements, it is estimated we can "manage" with our present supply of tin for about five years.

As a rule tin cans are made of about 98½ per cent steel and less than 1½ per cent tin. However, it takes about half of the nation's tin tonnage to produce the billions of cans manufactured annually. In May, 1941, the Government requested can manufacturers to cooperate in conserving tin by using tin plate on which the amount of tin coating would be reduced 10 per cent from 1.5 pounds to 1.35 pounds of tin per base box of tin plate (base box 112 sheets 14″ x 20″), except for a few specified products requiring a heavier coating. At the same time the industry was asked to substitute wherever possible cans made of black plate (enameled steel sheets) and terne plate (steel sheets) with a thin coating of 80 per cent lead and 20 per cent tin for tin plate cans.

Two new methods in manufacturing have cut the use



of tin considerably. They are electroplating and bonderizing. In electroplating, where tin was used at the rate of .5 per cent tin per base box, it has been cut to .25 on hot dip plates. By the end of 1943 about one-third of all cans will be made by the electrolitic process with a saving of about 40 per cent tin on one-third of total production. Bonderizing, although used for years in the automobile industry, is new in can making. It prevents rust without the use of tin by protecting the steel. In fact, no tin is required at all. That presents a second problem. Will the industry be allocated sufficient steel to meet requirements? That question is still hanging fire.

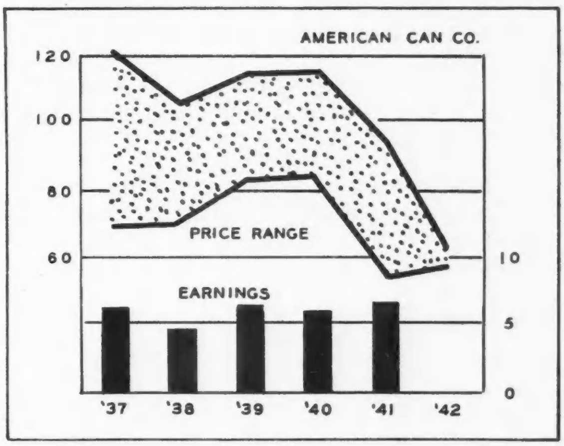
While we are considering sources of supply it is interesting to note several things. First, one of the important oils used in lacquering is tung oil, imported from China. With the Burma Road closed the supply of tung oil from the Orient is cut off. Substitutes are being used which are said to be "quite satisfactory." Even after the Japs are driven from the tin mines of the Far East it will be a considerable time before tin shipments can be resumed. Smelters and dredges will have to be rebuilt and, it is conceivable the Japs will do all within their power to render the mines useless for a long time when they are forced to abandon them.

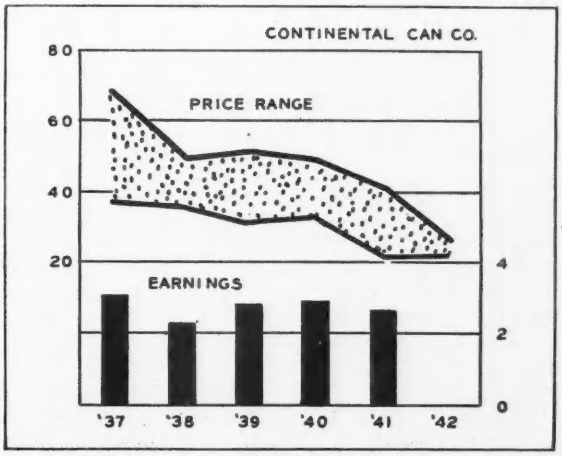
A comparative study of the two major companies, American and Continental, whose problems are more or less identical, is interesting. American, according to its 1941 annual report, showed a consolidated income before deduction of federal income and excess profits taxes, of $37,545,831, or $13,204,925 more than the corresponding item in 1940. After provision for the taxes noted and for dividends on the preferred stock, the remaining net income for 1941 was equivalent to $6.45 per share of common stock, as compared with $5.88 the preceding year. After paying dividends on the preferred stock and $4 per share on the common stock, the balance of $6,063,508 was transferred to surplus. Inventories were considerably higher, being $64,144,312 as compared with $49,206,833 a year previously, an increase of 30.4 per cent. Taxes of all kinds in 1941 amounted to $25,473,472 or $10.30 per share of common stock, compared with $11,916,359, or $4.82 per share of common stock in 1940. In 1942 they will be considerably higher, of course.

The company's sales during 1941 totaled $263,890,628, establishing an all-time high sales record. In 1940 the figure was $197,515,224, or 33.6 per cent less.

Continental's report is equally interesting. Net sales to customers in 1941 were $136,652,016, as compared with $101,039,473 in 1940, a gain of 35.25 per cent; net profit, before income and excess profits taxes, in 1941, $12,194,296, compared with $12,235,621 in 1940, a decrease of .03 per cent; income and excess profits tax provision in 1941, $4,724,612, against $3,281,989 in 1940, an increase of 43.96 per cent; net income was $7,469,684 in 1941, and $8,953,632 in 1940, a decrease of 16.57 per cent. Total cash dividends paid on common stock amounted to $5,707,874, representing $2 per share. The company redeemed all of the outstanding $4.50 cumulative preferred stock on January 2, 1941.

Both companies are cooperating in the war program on an extensive scale. In addition to its regular operating company, American Can has organized two wholly-owned subsidiary companies, the Amertorp Corporation and the Amunition Container Corporation. These companies operate under contracts from the Government on a cost-plus-a-fixed-fee basis, a safeguard against financial risks and providing a reasonable fee for operating management. The cost of providing the buildings and the equipment, as well as entire operating costs, under existing contracts, are paid (*Please turn to page* 49)





Another Look At . . .

CHICAGO PNEUMATIC TOOL — AMERICAN HOME PRODUCTS — TWENTIETH CENTURY-FOX FILM

ARCHER-DANIELS-MIDLAND — CHAMPION PAPER & FIBRE

Chicago Pneumatic Tool

Exceptional vulnerability to higher taxes, rather than high production levels, should prove the most important factor in determining final results for Chicago Pneumatic Tool this year. The war has created a record demand for the company's well established line of air compressors, pneumatic tools, drills, hoists and engines. Unfilled orders are at the highest level in history, and sales are continuing the spectacular showing which caused an increase of 100 per cent in 1941. New plants are being acquired or constructed and many divisions are operating on a twenty-four hour basis. But while earnings before taxes promise to run well above the $9,213,605 reported last year, tax increases are likely to cause a decline in net.

The final tax status of Chicago Pneumatic Tool will, of course, be determined by the 1942 Revenue Act. Some idea of its position, however, can be obtained by applying the Treasury's recent proposals to 1941 results. Had the 55 per cent normal and surtax and 75 per cent excess profits tax rates been in effect last year, net income, instead of amounting to $6.15 a share, would have decreased to $2.29. Increased operating income and the leverage afforded by 65,529 shares of $2.50 convertible preferred and 181,135 shares of $3 convertible preferred should permit a better showing this year than that figure on the 335,320 shares of common, but at best a sizable decline is indicated. Coverage of the indicated $2 dividend rate is probable, but indefinite continuation of that rate is doubtful. Demands on working capital will be heavy, since inventories bulk large in the company's current position and, in combination with probable lower net, will probably dictate a conservative financial policy.

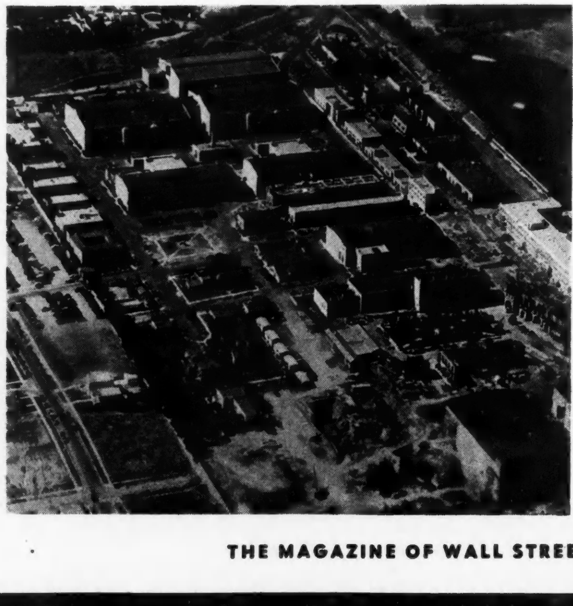
At its recent price of 16⅞, the common stock appears to discount most of the unfavorable features of the company's tax status.

American Home Products

Whatever chance American Home Products has of holding 1942 earnings in line with the $4.83 a share reported last year will depend largely on its success in continuing the policy of absorbing smaller, but well established, concerns in the drug and allied fields. Such a policy has been pursued consistently in the past and, despite the practice of financing the expansion through an exchange of stock, has resulted in an upward trend of earnings per share. Additional operating revenues from International Vitamin, Miller Wholesale Drug, Baldwin Laboratories and Blackstone Products, the four firms acquired in 1941, served in large measure to offset the effect of higher taxes and hold the decline in net income from the previous year to 49 cents a share. Without the added revenues earnings might have been substantially smaller.

Much the same condition should obtain in 1942. Sales should rise, as normal business will probably be little affected by priorities and should respond favorably to higher national purchasing power, while some sales increase may be secured from government contracts for medicinal, household, vitamin and nutritional products. Rising costs of materials and labor, however, will probably narrow profit margins and, on balance, there should be little improvement in operating results. New sources of revenue will be needed to offset the effects of higher taxes. These need not be especially large, as the company's tax credit is reasonably good. An increase in the excess profits tax rate would have no particularly serious effect, as American Home paid only $673,785 in taxes of this type in 1941, as compared with net operating income of $7,819,487 and income taxes of $2,738,426. Even under the most adverse conditions, therefore earnings are not likely to decline sufficiently to threaten the regular monthly dividend of 20 cents although it might be necessary to omit the customary extras

American Home Products is the second largest domestic manufacturer of proprietary drugs and medicines, cosmetics, household preparations, vitamin products and baby foods. Advertised brands include such well-known trade names as Anacin, Neet, Kolynos, Petrolagar, Edna Wallace Hopper and Clapp's baby foods. A strong financial position has been maintained. Net working



capital on December 31, 1941 was $13,425,469, and current assets included $2,598,807 in cash and $12,687,734 in inventories. Capitalization consists of $5,000,000 3½ per cent debentures, due in 1956, and 808,674 shares of $1 par capital stock. The shares, which recently sold at 37½, are near their lowest point since 1938.

Archer-Daniels-Midland

Although earnings of Archer-Daniels-Midland for the fiscal year ending June 30, 1942 will probably mark the peak of the war period, future prospects should be reasonably good. Net income for the quarter ended December 31, 1941 was $1.95 a share, continuing the favorable showing of earlier months and indicating that profits for the 1942 fiscal year should be substantially above the $5.69 of the 1941 period. Subsequent prospects are more uncertain. In the 1943 fiscal period the company will be subject to the provisions of the new tax bill and profit margins may show some tendency to decline with the working off of lower cost inventories. Nevertheless, the combination of larger sales, stimulated by rising consumer incomes and the war effort, and a relatively high tax credit should permit reasonably good results.

Archer-Daniels-Midland is a leading producer of oil products, including linseed oil, cake and meal, fish oil, soybean oil and various vegetable oils. It also owns flaxseed processing plants in New Jersey and the middle west with an annual capacity of 15,000,000 bushels, has extensive grain storage facilities and, through subsidiaries, conducts a flour milling business with a daily capacity of 29,600 barrels. Consumption of vegetable oils should be at high levels, since war demand for paints should offset the loss of the normally important outlets in the automobile, furniture and building trades, while export and domestic demand for foods should be at a record peak.

Preferred stock of Archer-Daniels-Midland was retired in 1939. In addition to $2,200,000 long term bank loans, present capitalization consists of 544,916 shares of common stock. Working capital is adequate, although liabilities on June 30, 1941 included $12,800,000 bank loans incurred for the purpose of financing inventories. The common stock recently sold at 32.

Twentieth Century-Fox Film

Even for the favorably situated motion picture trade, the 1942 outlook for Twentieth Century-Fox Film is especially promising. Profits for last year amounted to $2.03 per share. Present indications are that, in spite of higher taxes, this showing should be topped during the current year.

Several factors contribute to the company's strong position. The outlook for the industry in general is favorable, with attendance apparently being stimulated by the war. Recent releases have been well received and rearrangement of producing assignments is expected to result in additional successful pictures. There is a possibility that the agreement made with England, allowing the company to receive 50 per cent of the earnings of its British holdings, may be modified in its favor, permitting larger receipts from this source. Finances are in strong condition and an early resumption of common dividends is well within the range of possibilities. And, of prime importance, a credit of around $3 a share, or well above 1941 earnings, is indicated before excess profits taxes apply.

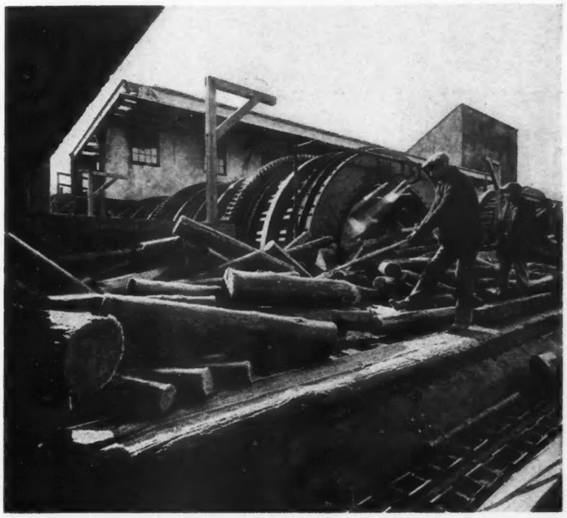
Twentieth Century-Fox Film is one of the so-called "Big Four" in the picture industry. The studio at Movietone City, Beverly Hills, Calif., located on a 93 acre site, is one of the world's largest, while a small studio is maintained in Hollywood. A news gathering service, with offices all over the world, is operated by subsidiaries. Distribution is effected through a world wide organization. The company operates no theatres, but owns a 42 per cent interest in National Theatres Corp., which controls more than 500 theatres in this country and an indirect interest in Gaumont-British Pictures, which operates approximately 300 houses in England. The Roxy Theatre in New York is owned by a subsidiary.

Since its formation in 1935, Twentieth Century-Fox Film has shown fairly consistent earning power except in 1940. Profits during the 1936-39 period were at a high level, providing a substantial tax credit on the basis of the average earnings option. Subsequent to the war, net income was reduced by loss of revenue from British holdings and adverse rates of exchange. A sound financial position has been maintained by consistent reinvestment of a part of earnings. The stock, which recently sold at 9, appears to be among the more reasonably quoted lower priced securities.

Champion Paper & Fibre

In spite of estimated common earnings of around $4.75 a share for the fiscal year ending April 30, 1942, the need for building up working capital will dictate a conservative dividend policy for Champion Paper & Fibre.

Heavy expenses in connection with expansion of plant facilities in recent years have depleted cash and necessitated new financing. Costs of the new plant at Houston and the improvements to the Canton and Hamilton divisions are estimated to have been in excess of $4,000,000. Recent financing included the sale of $1,000,000 preferred and negotiation of a serial (*Please turn to page* 48)



FOR PROFIT AND INCOME

Iron Companies

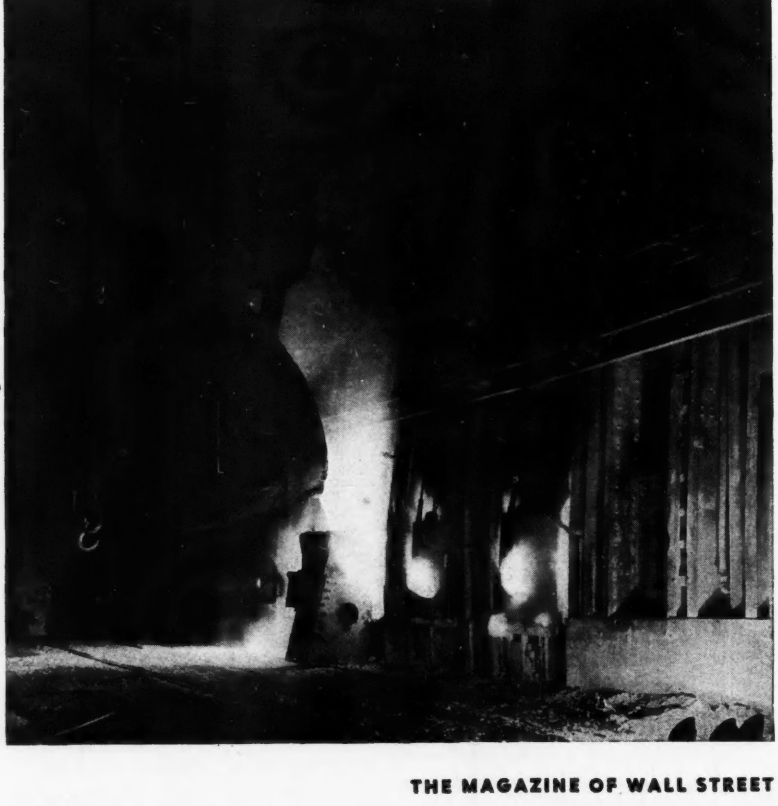
Some very significant changes of long range importance are occurring in the steel industry. An unique, but fundamental characteristic, of the steel industry is that current production is always very largely dependent upon reclamation of past production. For many years the junking of old automobiles and other steel products provided the essential scrap steel. The present pinch in scrap supplies is partly due to heavy previous exports to Japan, but the major long term factor is that we are no longer making steel civilian goods subject to scrapping in this country. The present steel production is going into armaments, the bulk of which will either go to foreign lands—never to return—or which will be held permanently in reserve in this country after the war. This means that the steel industry for years to come must get along on less scrap and must use much more pig iron. The result will be increased costs for the steel producers—but independent makers of pig iron have probably the brightest long range prospect in their history. Prominent among such companies are Interlake Iron, Pittsburgh Coke & Iron and Woodward Iron. Great Northern Iron Ore owns extensive iron ore properties in the famous Messabi district.

American Sugar Preferred

Earlier this year American Sugar 7% preferred shares were selling in the high 90's. Subsequently, the shares broke sharply and sold down to 78¾, reacting to the uncertainty injected into the company's current prospect due to the possible difficulty in obtaining sufficient supplies of raw sugar to maintain refinery operations at a profitable level. Later information on the potential supplies of raw sugar indicate that shortages may not be nearly as severe as seemed likely a month or six weeks ago, although, of course, the availability of sufficient cargo space to transport Cuban raw sugar will depend upon a number of unknown elements arising principally from the Battle of the Atlantic. It is to be doubted, however, that the company's current operations will be affected to a point where any serious doubt would be cast on the continued payment of preferred dividends. Earnings available for the 450,000 outstanding shares of preferred stock last year were equal to $8.71 a share. Admittedly, this does not indicate a particularly comfortable margin of safety for preferred dividends. Fortunately, however, the company's balance sheet is more reassuring. Cash alone was in excess of $16,000,000, compared with total current liabilities of about $9,500,000. In addition marketable securities, including about $2,300,000 U. S. Treasury tax notes, were in excess of $6,000,000. Inventories were about $14,350,000. Affording a generous return at recent levels around 85, American Sugar preferred shares invite consideration by income investors in a position to forego market stability.

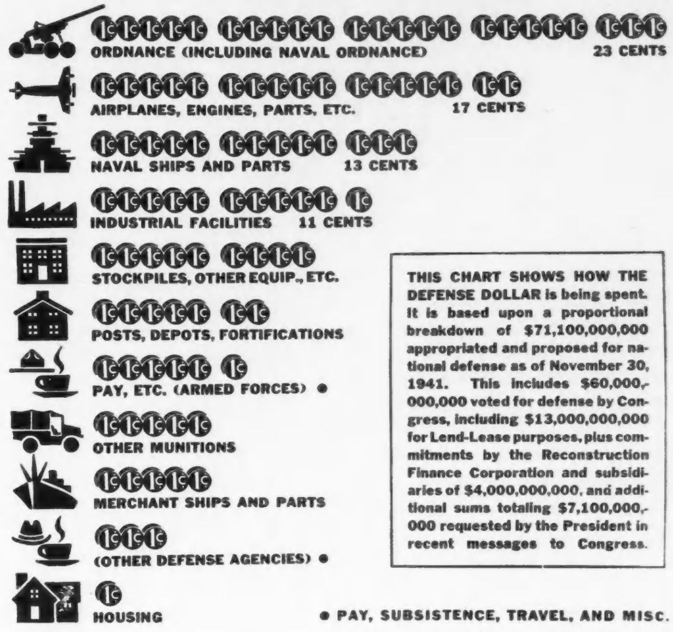
War Casualty

To Arnold Print Works goes the dubious distinction of being the first



major corporation to be forced out of business by the war. Since 1869, the company has been prominently identified with the printing of cotton goods. The first effects of the war were a marked increase in public consumption of cotton goods, with a corresponding benefit to the company's sales and profits. Recently, however, with the diversion of a considerable number of looms to war products, the company has found it increasingly difficult to obtain adequate quantities of grey goods for printing. In the opinion of the management a war of long duration would inevitably mean a dissipation of the company's assets, leaving it to face a highly uncertain post-war era in a vulnerable state. The management has therefore recommended that properties be sold and the company liquidated. The following statement by Samuel M. Jones, the company's president is both interesting and significant. "My associates and I, who are active in the management of the company, have, perhaps, less to gain by this course then the other stockholders because in the case of liquidation we shall lose the salaries which we have been receiving from the company. I feel, however, that all personal considerations and personal sentiments should be waived and that it would not be wise to endeavor to operate this business at a loss during the war time and at the end of the war possibly find ourselves with depleted working capital in posession of a high-cost plant and unable to cope with the highly competitive conditions which may prevail in the textile business when the war is over." Stockholders could hardly do less than cite the management for its honesty and forthrightness.

HOW WE ARE SPENDING THE DEFENSE DOLLAR



So They Say . . .

W P B assures us that there will be no dearth of razor blades. . . . U. S. Bureau of Labor Statistics index of living costs stood at 112.6 at the end of February, compared with 98.6 in August, 1939. . . . They have finally found some use for all of that silver stored at West Point. W P B has requested the Treasury to release 40,000 tons to the "loaned" to industrial users. . . . Columbian Carbon covered the regular quarterly dividend of $1 by a good margin in the first quarter. . . . Since the first of the year Westinghouse Electric & Manufacturing has booked more than $300,000,000 in new business. . . . Interest on Colorado & Southern 4½'s 1980 due November 1, last year, will be paid on April 24. . . . Celanese is working on several large Government contracts. . . . Shipments of American Brake Shoe in the first quarter were 50% higher than a year ago. . . . Melville Shoe is planning to reduce the number of retail outlets. . . . Oil is moving by rail, but it costs three times as much to bring a barrel of oil from Texas to the Atlantic seaboard by tank car than by tanker. . . . Climax Molybdenum will produce nearly 50% more "moly" this year than in 1941. . . . According to Senator Taft, a widow receiving $2,500 annually from dividends is threatened with a cut of 50% in income this year, if the Treasury's corporate tax proposals are enacted. Income from wages or bond interest would be liable to only $200 in taxes. . . . Production of meat in March was the largest in history for that month. . . . BUY WAR BONDS AND AVENGE BATAAN.

Bond Opportunity

Among bonds of somewhat better-than-average calibre and obtainable at a discount, Walworth 1st mortgage 4's 1955 warrant attention. The bonds are currently quoted around 87. The issue is outstanding in the amount of $5,971,000 and is the senior obligation of the company. In its field Walworth ranks as the second largest manufacturer of valves and fittings, sold principally to industrial plants, railroads, shipbuilders, etc. At the present time the company is doing a huge volume of business with the Navy and Maritime Comission, in addition to supplying other products vital to the war effort. Sales last year increased nearly 85% and were the largest in the company's history. Total fixed charges were covered nearly 18 times, with charges and preferred dividends covered nearly 6½ times. Financial position at the close of the year was comfortable and there is every indication that the company will continue to provide substantial financial protection for the bonds in question for the duration of the war at least.

What Can Reynolds Tobacco Earn and Pay?

BY RICHARD COLSTON

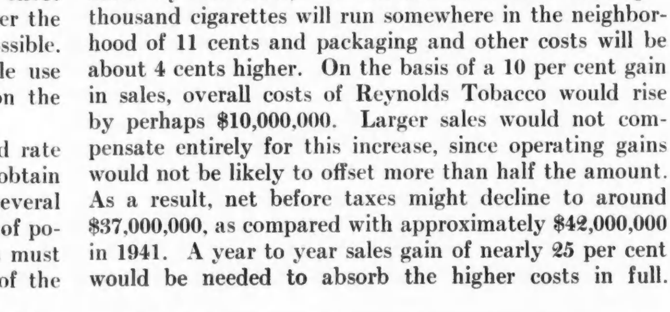
As with most companies, an appraisal of the 1942 prospects of Reynolds Tobacco must be made with the full knowledge that it is subject to later adjustment. If the company decides to offset the effects of higher costs by lowering advertising expenditures, if the competitive threat to the 15 cent brands of cigarettes implied in the Treasury's excise tax proposals proves a reality, if prices are raised, or if final tax rates are less severe than now seems probable, present estimates could prove wide of the mark. Enough data is on hand, however, to permit some general conclusions that should be of considerable benefit to stockholders. A reasonably sound forecast of earnings tendencies can be made. The probable effect of taxes can be evaluated. And an idea of whether the present dividend rate can be maintained is possible. The tentative estimates should be of considerable use to the investor, as any deviation is apt to be on the unfavorable rather than the favorable side.

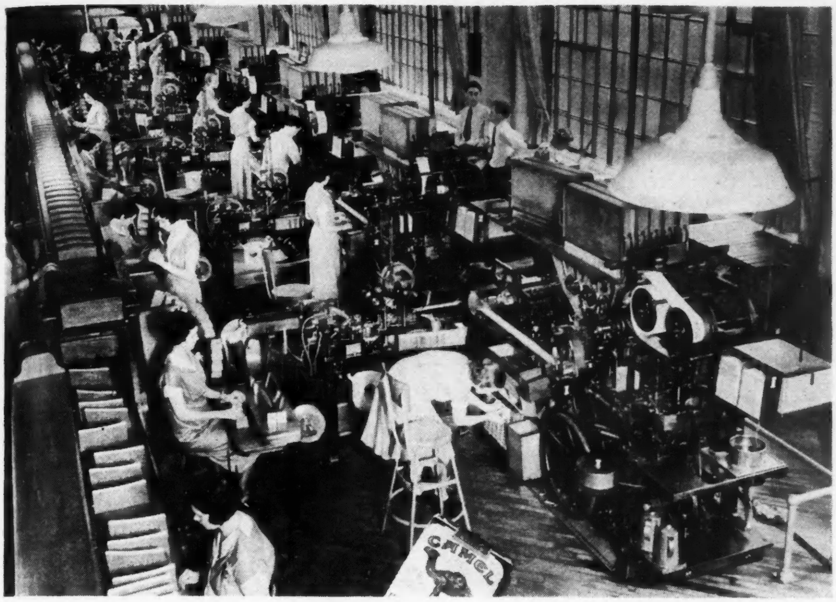
From the stockholder's standpoint, the dividend rate is perhaps the most important consideration. To obtain an idea of whether it is safe or must be cut again, several preliminary steps are necessary. First an estimate of potential sales must be made. Next operating ratios must be adjusted for higher costs. Then an appraisal of the effects of higher taxes must be attempted. And finally, the results must be viewed in the light what kind of financial policy may be forced on the company by rising inventories and demands on working capital and the possibility that some of the effects of declining profits may be offset by an increase in prices.

The first question in the appraisal, whether sales of Reynolds brands, particularly Camel cigarettes and Prince Albert tobacco, will rise this year, can probably be answered in the affirmative. Except in the unlikely event that the Treasury's original excise tax proposals are adopted, giving a price differential of 1 cent a package to the 10 cent brands and threatening the competitive position of the 15 cent cigarettes, a sales gain of some 10 per cent seems well within the range of probability. This would be about equivalent to the increase of last year, although somewhat less than that scored by the industry as a whole. It also marks the limit of any anticipated rise. Cigarette sales have advanced approximately 17 per cent this year, but the initial rate of gain is not likely to be maintained, as it is in part due to dealer stocking in anticipation of a possible tax increase.

The second step in appraising the dividend outlook is to translate rising sales into earnings. And here consideration must be given not only to higher costs but also to possible increases in taxation.

Rising costs are a serious threat to the company's profits. A smaller crop, greater demand and better quality caused a sharp increase in tobacco prices last year and raised the cost of the three-year average inventory used by Reynolds, as well as by the rest of the industry, by some 10 per cent. According to estimates made by the OPA, the increase in tobacco costs per thousand cigarettes will run somewhere in the neighborhood of 11 cents and packaging and other costs will be about 4 cents higher. On the basis of a 10 per cent gain in sales, overall costs of Reynolds Tobacco would rise by perhaps $10,000,000. Larger sales would not compensate entirely for this increase, since operating gains would not be likely to offset more than half the amount. As a result, net before taxes might decline to around $37,000,000, as compared with approximately $42,000,000 in 1941. A year to year sales gain of nearly 25 per cent would be needed to absorb the higher costs in full.





The indicated decline in net income due to higher costs is only part of the story, as a further drop is called for in the event of an increase in tax rates. The company is fortunate in one respect, in that it has a high excess profits tax credit and, with net before taxes declining, should be subject to only a small excess profits tax in 1942. A rise in normal and surtaxes, however, will constitute a serious charge.

If the excess profits tax is raised to 75 per cent and the effective "income" tax rate to 55 per cent, as suggested by Mr. Morgenthau, the company's Federal tax bill would amount to possibly $21,500,000. Adding indicated state and local taxes of $1,700,000, total taxes would absorb approximately $23,200,000 of the $37,000,000 net operating income. This would leave a net of $13,800,000, or around $1.38 a share on the common and Class "B." If the Treasury's effective income rate is established to 45 per cent, total taxes would approximate $20,000,000, net income $17,000,000 and net per share $1.70. In this case the indicated dividend of $1.40 would seem reasonably secure.

A threat to dividends is more evident, however, when the decrease in net is viewed in the light of probable increased demands on working capital. While the effects of the higher price of the 1941 tobacco crop have already been incorporated in the company's net inventory of $154,934,724 and cash holdings, another advance in prices this year, or even maintenance of the present level, could easily cause a considerable drain on cash resources.

This is evidenced by a close examination of the company's current position at the end of 1941. In spite of a rise in current assets to $174,650,436 from $155,739,637, cash increased only $348,724 during the year. The fact that it rose at all is in many ways misleading. During the last part of 1941, the Treasury agreed to settle the Reynolds claim for a refund of processing taxes borne under the Agricultural Adjustment Act for a net amount of $1,950,324. The payment was, of course, reflected in the year-end cash account. Without the refund, cash holdings on December 31, 1941 would have approximated $7,430,000, instead of $9,381,171, a decline of some $1,600,000 during the year and an indication that the necessity for carrying higher priced inventories actually had weakened the cash position. Tobacco prices cannot be predicted in advance, but a repetition or exaggeration of the demand on working capital is quite within the realm of possibilities this year. In itself this does not indicate the need for new financing, but it would undoubtedly be an important consideration in dividend policy.

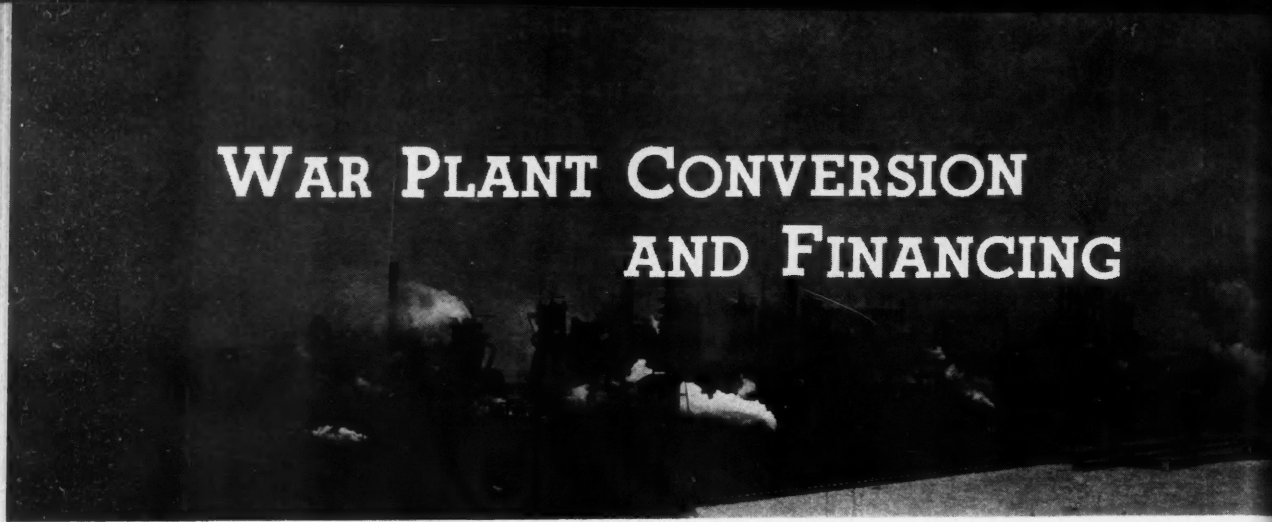
Only one development, an advance in prices, seems capable of offsetting the decline in profit margins; and there is no certainty that it will take place. The O P A has given conclusive evidence that it will not tolerate a price increase for the purpose of covering larger income taxes. American Tobacco Co. tried to raise the price ceiling last fall, but promptly was forced to rescind its action. There is, however, a possibility that the O P A will permit a price rise by indirect means.

Any price increase would probably be an offshoot of excise taxes. The present excise rates are $3.25 per thousand on cigarettes and 18 cents a pound on manufactured tobaccos. The rates proposed by the Treasury are $4 per thousand on 15 cent brand cigarettes and 36 cents on tobaccos. The cigarette increase amounts to 1½ cents per pack, and, as it will give a competitive advantage to the 10 cent brands, will probably be turned down. A compromise might be worked out, calling for a tax increase of an odd amount, say ½ cent a package, which would permit the manufacturers to raise the price 1 cent, retaining the difference for themselves.

Even this would not solve the problem, although it might permit an increase in Reynolds' net before taxes of as much as $15,000,000 or $16,000,000. The added income would all be in the excess profits tax bracket and subject to a 75 per cent excess profits tax.

What happened to the remainder would depend on final disposition of the normal and surtax rates. If Congress finally settled on an effective rate of 55 per cent, the company would probably not be able to report net income after all charges of more than $1.60 on the "B" and common stock. At an effective rate of 45 per cent, common and Class "B" earnings could hardly rise above $2 and in all probability would be slightly lower.

It is only too apparent, from the evidence at hand, that the recent action of directors in reducing the quarterly dividend to 35 cents was forced upon them. Whether or not, however, a further reduction may be necessitated later in the year will obviously depend upon indeterminate contingencies involving taxes, costs and selling prices. In the circumstances it is necessary to conclude that Reynolds Tobacco shares, long regarded as a dependable income medium, must now be rated as speculative involving the implicit risk of lower dividends.



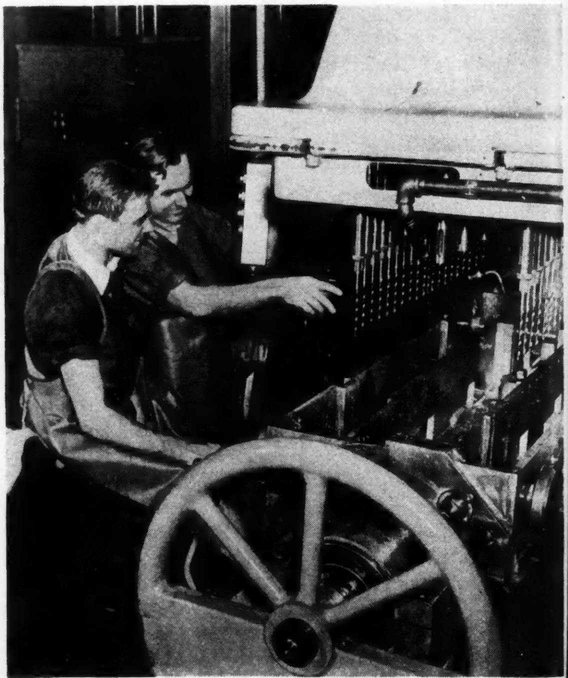
War Plant Conversion and Financing

Editor's Note: This continuing service is dedicated to aiding industrialists, and especially small manufacturers, with their problems of war plant conversion and financing.

War Production Board officials from Nelson down are feeling much more comfortable about their end of the national effort. Arms output is going great guns, thanks to completion of plant building projects undertaken many months ago and to the rapid step-up of the automotive industry's contribution. Unfortunately but naturally, this decreases official concern over the problem of converting small plants to "bits and pieces" war work. Manufacturers shut off from essential materials are warned to find their own salvation or perish. "WPB is not WPA," say officials "and people will have to get used to the idea that there will be industrial casualties just like there will be casualties on the battlefield."

The industrial casualty rate may actually exceed the military casualty rate. Out of approximately 186,000 manufacturing plants in the country, 169,000 are small plants employing less than 100 people. Of the latter, some 45,000 plants are in the metal-working lines and only a small fraction of these now have war subcontracts. About 85 per cent of prime contracts awarded to date have gone to 350 large concerns. WPB says prime contractors have let out "between 40,000 and 60,000" subcontracts, but has not revealed—and probably doesn't know—how many individual subcontractors got these jobs. In spreading the plums, big contractors, of course, figure costs and profits, as well as your efficiency and reliability. They are inclined to deal with suppliers that they know and have previously used. To put it mildly, this doesn't make it easy for you to break in.

One of the most remarkable of all conversion success stories is that of Standard Steel Spring Company, a relatively small enterprise as automobile accessory companies go. Volume for the five pre-war years 1935-1939 averaged about $5,100,000 a year and net profit about $220,000. Last year, despite tremendous boost in taxes, net income jumped to $945,810, more than four times pre-war average and more than double 1940 figure. Automotive volume did not account for this, although it was good. The explanation is that a year ago the company took stock of what it could best do in war work and got busy. Its engineers decided that production of tank armor plate was best suited to Standard's equipment and knowledge of heat treating processes. It worked out improved, simplified specifications which the War Department approved. The business rolled in. Today these orders—amount a military secret—make all past automotive volume look like very small change. In fact, Standard is now heading up a pool, consisting mostly of manufacturers of auto springs and bumpers, to handle all armor for M-4 and M-7 tanks. Total business in sight is said to be "several hundred million dollars." Annual volume will dwarf past best total volume of all makers of springs and bumpers.



Zero hour has now come for all manufacturers of non-essential civilian durable goods and gadgets who have not already converted to war work. There has been plenty of advance warning. Many took time by the forelock and converted. Many didn't — or couldn't. For them the grace period is over or fast running out.

In addition to cease orders already effective, ten more products get blacked out by the end of the current month — ranging from soft drink dispensers to juke boxes. For forty-four others, from ash trays and awning frames to sun lamps and wire racks, its curtains in May. Eighteen more suspend for the duration in June, from curtain rods and necktie racks to toys and burial caskets. And that's all. Thereafter, if you are a manufacturer small or big, you make war goods or absolute consumer essentials or nothing.

Unless you are one of the fortunate minority, it's going to be tough. For instance, in the New York Ordnance District, out of 10,000 plants listed with the Army only some 300 have prime contracts and only about 1,800 are subcontractors. Army engineers say nearly 8,000 have scant prospect of getting ordnance orders because they have obsolete facilities or can't do precision manufacture.

But remember that the services need a host of things besides ordnance in the narrow sense. Don't give up if you haven't got what it takes to make guns or shells or aircraft parts. Maybe you could make mess kits or helmet linings or gas mask parts or tripod mounts or one or more of dozens of not too intricate things that are being sought every day by the Army or Navy or Maritime Commission. In some cases relatively simple readjustment of producing equipment can make a war job feasible without more than moderate outlay.

Conversion is first and foremost an engineering job. If you are qualified to do your own engineering — or can afford to hire it on a fee basis — that's the best approach. If you can't you can get considerable technical assistance, but not unlimited, from the nearest local office of either the Army Procurement Planning Service or the WPB Contract Distribution Branch. Naval production engineers are also available as advisers.

It now appears that the $100,000,000 Smaller War Plants Corporation bill will become law, carrying further the general effort to make credit financing of war production as easy as possible. It will not materially change the picture. Financing, despite the political emphasis on it, remains secondary. Cash in the bank does not of itself qualify you for a war contract. If you get the contract and can offer reasonable proof of ability to carry it out, you will find ample credit available — most conveniently from your regular bank. The installment finance companies are also looking for such business.

You will wait in vain for the Government to hunt you up and do a rescue job. Self-starters, of ingenuity and perservance, uncover or create their own conversion opportunities.

Take the case of Northern Illinois Corporation, an installment financing company normally handling $13,000,000 to $16,000,000 of loans a year and a very small potato as compared with Commercial Investment Trust or Commercial Credit. Regular business is slumping fast, but this outfit saw it coming and has more than offset the shrinkage. How? By

hunting out prospects for conversion, helping them get contracts, helping them convert facilities — and, of course, doing the resultant financing. The "conversion" of this finance company took it into (for protection of its own money) industrial production planning, cost accounting, mastery of Army inspection standards. It has profitably sparkplugged and wetnursed dozens of small plant conversions in its home territory

Following is a list of the machine tools or equipment most needed in handling war manufacture: Horizontal and vertical boring machines, jig borers, gear grinding machines, radial drills, engine and turret lathes, hobbing machines, thread grinding machines, vertical and horizontal milling machines, multiple spindle screw machines, planers, die sinkers, chambering machines, rifling machines, bar machines, reaming machines. Also facilities for alumiting parts, die casting, foundry, arc welding, forgings, heat treating.

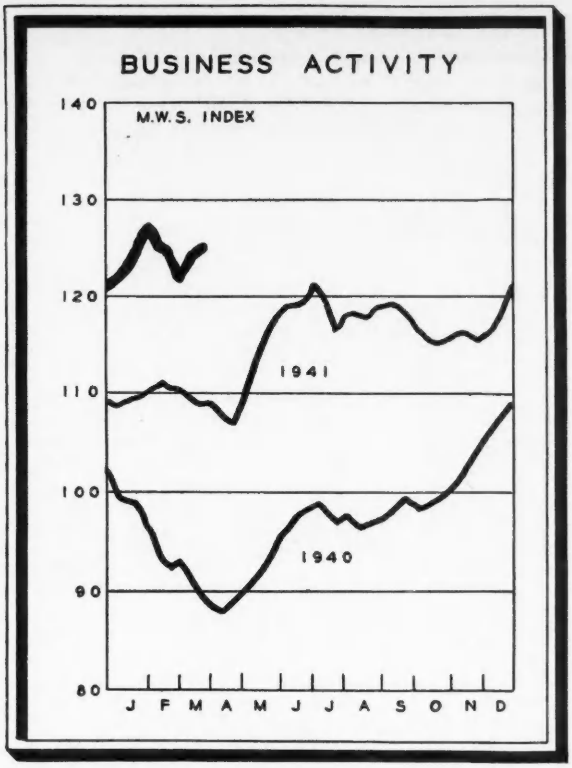
You can't rely on previously accumulated inventories of raw materials to keep you in "business as usual." Government inventory control of materials subject to priority ratings is getting tough and will get tougher. Note recent Federal seizure of 76,000 pounds of copper sheets from a New York bathroom supply dealer, 1,000 pounds of ingot aluminum from a small Easton, Pa., firm. There will be others.

Latest additional inventory restrictions apply to nineteen types of supplies, including aviation, automotive, construction, electrical, dairy, farm, foundry, grain elevator, hardware, health, industrial, plumbing, heating, railroad, refrigerating, restaurant, textile mill, transmission, welding and cutting. That's about everything, including the kitchen sink.

Suppliers located in the Eastern and Central time zones must limit inventory of any of the above types to twice dollar value of sales made from stock in the second preceding calendar month. In other time zones limit is three times sales on the same basis. If your total inventory at cost is less than $20,000 and less than $10,000 for any one of the listed types of supplies, you are exempt from limitation order L-63.

If you are pondering the problem of conversion to war work it's a good idea to investigate cases of successful conversion by other firms in your locality. See what they have that you haven't got. It might be specialized equipment. On the other hand, it could be just initiative and imagination.

Among large manufacturing companies of greatly diverse types conversion to war production has already made remarkably fast strides. For instance, Eastman Kodak forecasts that this year more than 80 per cent of its output will be for war uses; and that dollar volume of non-photographic military products will exceed the largest previous volume of civilian output of any year in its history. And American Radiator, hit by shut-down of non-essential building, is working at capacity on Government orders. Some officials at Washington believe conversion of smaller plans will be speeded more by necessity than any amount of bureaucratic planning. The people of Moscow learned how to improvise when the Germans were at the gates — and it is said that even a rabbit can climb a tree if he has to. If you can't get materials for civilian production you have got to find or improvise a way to convert.



CONCLUSIONS

INDUSTRY—A number of plants, upon conversion to war work, will earn more than before.

TRADE—Drop in durable goods sales more than offset by spurt in demand for nondurables; but the inevitable aftermath of stocking by consumers will be a slump in retail sales accompanied by rising unit costs.

COMMODITIES—Washington moves toward blanket freezing of all prices.

MONEY AND CREDIT — Hoarding effects not inflationary. Business loans decline.

The Business Analyst

Per capita **Business Activity** has retraced about half of the February and early March dip, apparently ending the brief plant conversion recession. Average for March was about 123.2% of the 1923-5 base period—1.5 points below February, but 13% ahead of March, 1941. First quarter averaged 124.2, against 117.2 in the fourth quarter of last year and 109.6 in the first quarter of 1941. Without compensation for population growth this publication's index was 146% of the 1923-5 average last month, compared with 147 in February and 127 for March, 1941. First quarter averaged 147, against 138 for the fourth quarter and 128 in the first quarter of 1941.

* * *

War Expenditures in March rose to $2.8 billion, from $2.2 billion in February, making a total of $23 billion since June, 1940. The Department of Commerce points out that to take the ratio of war expenditures to national income as a measure of the proportion of our economic activity being devoted currently to war work gives an exaggerated picture. War expenditures cover the total outlay for goods and services at market prices; whereas the **National Income** is based upon "values added" to goods previously produced. Furthermore, war expenditures include such items as

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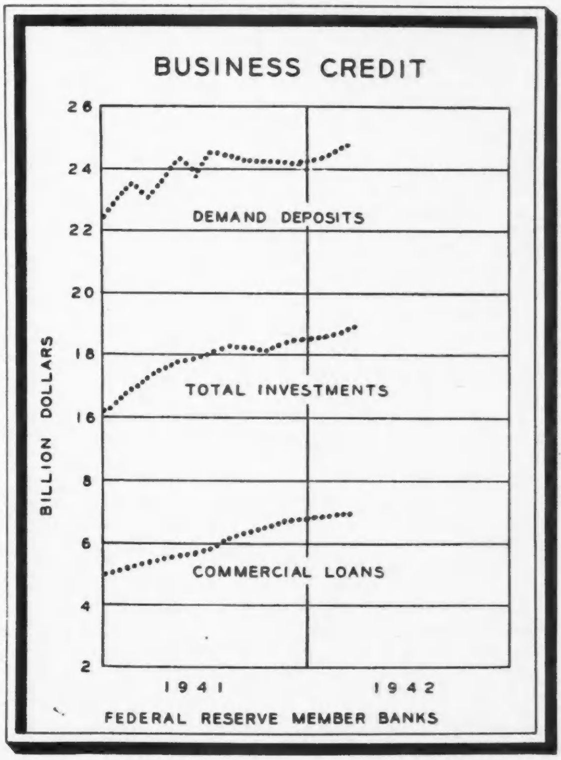


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Mar.	175	173	147
INDEX OF PRODUCTION AND TRADE (b)	Feb.	112	114	105
Production	Feb.	120	120	107
Durable Goods	Feb.	126	127	111
Non-durable Goods	Feb.	114	114	104
Primary Distribution	Feb.	110	109	97
Distribution to Consumers	Feb.	96	103	106
Miscellaneous Services	Feb.	108	108	100
WHOLESALE PRICES (h)	Feb.	96.7	93.0	80.6
INVENTORIES (n. i. c. b.)				
Inventories	Nov.	156.9	154.3	124.3
New Orders	Nov.	237	237	213
Shipments	Nov.	201	206	150
COST OF LIVING (d)				
All Items	Feb.	95.2	94.5	86.1
Food	Feb.	95.8	95.2	78.8
Housing	Feb.	90.4	90.1	87.7
Clothing	Feb.	84.5	82.4	73.1
Fuel and Light	Feb.	90.4	90.3	86.4
Sundries	Feb.	102.9	102.5	98.1
Purchasing Value of Dollar	Feb.	105.0	105.8	116.1
NATIONAL INCOME (cm)†	Jan.	8,143	9,080	6,695
CASH FARM INCOME†				
Farm Marketing	Jan.	986	1,151	670
Including Gov't Payments	Jan.	1,097	1,235	754
Prices Received by Farmers (ee)	Mar.	146	145	103
Prices Paid by Farmers (ee)	Feb.	147	146	123
Ratio: Prices Received to Prices Paid (ee)	Feb.	99	102	80
FACTORY EMPLOYMENT (f)				
Durable Goods	Feb.	143.6	143.4	121.0
Non-durable Goods	Feb.	122.7	121.8	114.7
FACTORY PAYROLLS (f)	Feb.	176.9	173.5	126.8
RETAIL TRADE				
Department Store Sales (f)	Feb.	125	138	103
Chain Store Sales (g)	Feb.	165	164	128
Variety Store Sales (g)	Feb.	167	164	136
Rural Retail Sales (j)	Jan.	180	187	146
Retail Prices (s) as of	Feb.	111.9	110.2	94.5
FOREIGN TRADE				
Merchandise Exports†	Dec.	$652	$491	$322
Cumulative year's total† to	Dec. 31	$5,144	......	$4,025
Merchandise Imports†	Dec. 31	344	281	254
Cumulative year's total† to	Dec. 31	3,346	......	2,626
RAILROAD EARNINGS				
Total Operating Revenues★	Feb.	$462,486	$480,691	$358,413
Total Operating Expenditures★	Feb.	327,653	348,781	255,590
Taxes★	Feb.	56,736	51,163	34,669
Net Rwy. Operating Income★	Feb.	66,486	68,966	58,136
Operating Ratio %	Feb.	70.85	72.56	71.31
BUILDING Contract Awards (k)	Feb.	$434	$317	$270
F. H. A. Mortgages				
Selected for Appraisal†	Dec.	14	73	17
Accepted for Insurance†	Dec.	12	56	13
Premium Paying†	Dec.	19	77	18
Building Permits (c)				
214 Cities †	Feb.	80	59	80
New York City†	Feb.	8	3	14
Total, U. S.†	Feb.	88	62	94
Engineering Contracts (En)†	Mar.	$729	$635	$452

PRESENT POSITION AND OUTLOOK

(Continued from page 37)

purchase of land, offshore expenditures, and advance payments to holders of armament contracts, none of which represents current production. The present writer estimates that an approximate comparable figure for actual war production may be reached by deducting 20% from reported figures. On this basis, that portion of the total national income devoted to war during March must have been about $2.2 billion, or 27%.

* * *

Recent readjustments of armament contracts, involving refunds of excessive **profits,** again draw attention to our contention that smaller concerns engaged in war work will earn a large percentage return on invested capital than big business—partly because Congress favors little business in taxation, and partly because unanticipated economies are developed through mass production.

* * *

The general **price level** continues to advance (wholesale prices are now 19% above last year); but the O P A is freezing more and more retail prices. It is highly significant that formally controlled wholesale prices rose only 3% last year, whereas the remainder jumped 15%.

* * *

Farm income in February was 40% above last year. Civil non-agricultural **employment** in February numbered 39,842,000—an increase of 2,394,000 over last year, but 29,000 under January. Weekly earnings of industrial workers increased almost twice as fast in the first 28 months of the war as in the like period of World War I. At the outbreak of the first world war factory **wages** averaged only $12.68 a week. Since then the average has risen 186%, compared with an increase of only 52% in **living costs,** so that factory **real wages** (the purchasing power of weekly earnings) have improved 24% between July, 1914, and January, 1942. Factory weekly real wages in February were 12% larger than a year earlier. For February, **wholesale sales** were 34% ahead of last year; while sales by the nation's **retail stores** were up 5%, including a rise of 21% for nondurables and a drop of 25% in sales of durable goods (including automobiles).

* * *

Despite higher wages (freight rate increase did not go into effect until Mar. 18) heavier tax reserves, and spotty traffic because of plant changeovers to war work, **railroad** net income for the first two months totaled $49.7 million, or 45% ahead of the like period last year. Soft coalers in the first quarter did not compare so well with last year when coal shipments were exceptionally heavy in anticipation of the April strike; but this will be more than made up during April and May. The carriers have asked for authority to use surplus funds from current large earnings to buy in their bonds below par and to complete reorganizations without incurring burdensome taxes.

* * *

Building contracts awarded during January and February in 37 states East of the Rockies totaled $751 million—23% ahead of the like period in 1941. Wholesale prices of building material average 11% above last year. Engineering construction awards for the year to date are 37% above last year, with public work up 70% and private off 51%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Mar.	7,393	6,521	7,124
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	Mar.	1,781	1,617	1,720
AUTOMOBILES				
Production				
Passenger Cars, U. S.	Feb.	52,200	147,858	394,513
Trucks, U. S.	Feb.	81,934	90,403	91,109
Registrations				
Passenger Cars, U. S. (p)	Dec.	174,188	163,126	334,073
Trucks, U. S. (p)	Dec.	41,006	35,985	51,095
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Mar.	377	354	394
Shipments, U. S. & Canada★ (tons)	Feb.	340	372	321
Mill Stocks, U. S. & Canada★ (tons)	Mar. 31	156	169	205
LIQUOR (Whisky)				
Production, Gals.★	Feb.	11,486	......	12,658
Withdrawn, Gals.★	Feb.	6,417	......	5,823
Stocks, Gals.★	Feb. 28	519,790	......	491,301
GENERAL				
Paperboard, new orders (st)	Feb.	508,272	581,502	470,671
Machine Tool Output (millions of $)	Feb.	93	85	57
Railway Equipment Orders (Ry)				
Locomotives	Feb.	169	25	127
Freight Cars	Feb.	11,085	8,479	5,645
Passenger Cars	Feb.	......	......	45
Cigarette Production†	Feb.	16,628	19,503	14,465
Bituminous Coal Production★ (tons)	Mar.	47,400	43,840	47,996
Portland Cement Shipments★ (bbls.)	Feb.	8,285	9,120	7,456
Commercial Failures (c)	Feb.	916	962	1,129

PRESENT POSITION AND OUTLOOK

W P B plans to distribute rolling stock among the various railroads according to war needs regardless of ownership, and will drastically curtail the O D T's construction program which calls for 130,000 new freight cars and 1,200 new locomotives during the last eight months of 1942. Permission will be given, however, to build 300 new locomotives this year and complete the 37,000 freight cars now on order. Equipment makers will have then enough war work to take up the slack; but the resulting equipment shortage may necessitate priorities on freight and passenger movement this autumn. Five equipment issues, scheduled for last week, were withdrawn, with resulting firmness in the market for outstanding issues.

* * *

Bituminous coal consumers who ignore the Government's admonitions to stock up early are likely to encounter delivery trouble during the autumn rail traffic jam. Requirements between now and the year-end are expected to total 424 million tons, against 372 million last year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Apr. 4	125.1	124.5	108.3
ELECTRIC POWER OUTPUT				
K. W. H.†	Apr. 4	3,349	3,346	2,960
TRANSPORTATION				
Carloadings, total	Apr. 4	828,890	804,746	683,402
Grain	Apr. 4	35,330	33,714	34,405
Coal	Apr. 4	147,816	156,048	58,841
Forest Products	Apr. 4	48,415	45,921	38,682
Manufacturing & Miscellaneous	Apr. 4	376,656	370,716	348,297
L. C. L. Mdse	Apr. 4	139,798	143,550	162,942
STEEL PRICES				
Pig Iron $ per ton (m)	Apr. 7	23.61	23.61	23.61
Scrap $ per ton (m)	Apr. 7	19.17	19.17	20.33
Finished c per lb. (m)	Apr. 7	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Apr. 11	99	98.5	99
PETROLEUM				
Average Daily Production bbls.★	Apr. 4	3,418	3,820	3,514
Crude Runs to Stills Avge. bbls.★	Apr. 4	3,515	3,667	3,617
Total Gasoline Stocks bbls.★	Apr. 4	105,149	105,624	98,566
Fuel Oil Stocks bbls.★	Apr. 4	82,455	83,045	93,803
Crude—Mid-Cont. $ per bbl	Mar. 28	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Mar. 28	2.23	2.23	1.78
Gasoline—Refinery $ per gal	Mar. 28	.083	.083	.05⅝

PRESENT POSITION AND OUTLOOK

Margain of increase in **electric power** output over last year has widened to more than 13%. Widest gain, 25%, is on the Pacific Coast; followed by the Rocky Mountain, West Central and Southern States, in the order mentioned. The Middle Atlantic region, with relatively few war industries, reports the smallest gain over last year.

* * *

The **steel** operating rate continues to fluctuately narrowly around the 99% of capacity level, with virtually all production preempted by war needs. The industry is expected to absorb the 6% advance in scrap prices resulting from the recent 6% freight rate increase.

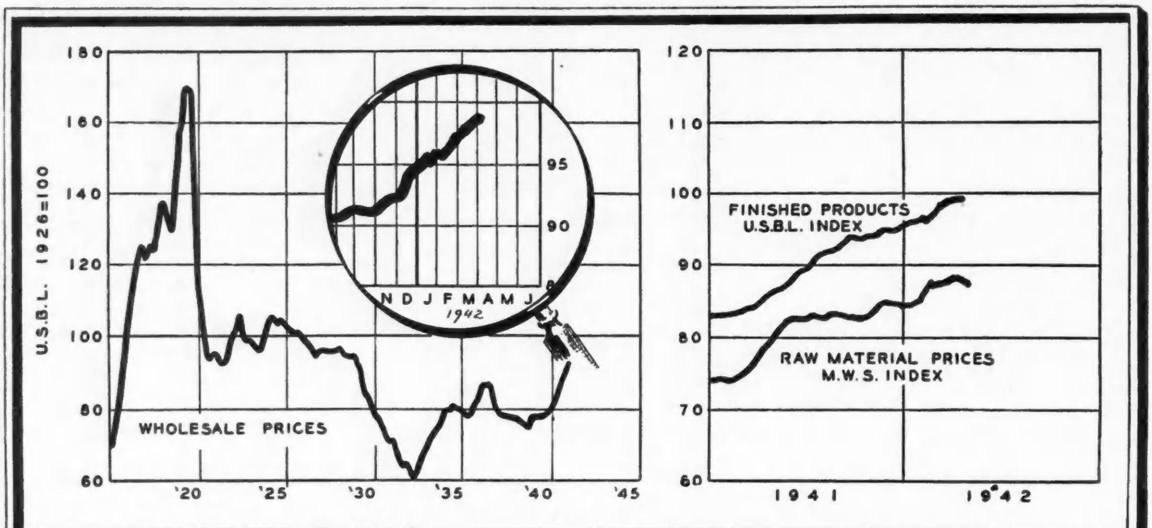
* * *

April **gasoline** demand is estimated by the Bureau of Mines at 55 million barrels—5 million less than in March, owing to tire rationing and the 20% motor fuel curtailment in the east and northwest. Current consumption in east coast states is around 1.5 million barrels, of which more than a third is being supplied by railroad tanks cars. Due to increase in transportation costs, O P A has sanctioned moderate price advances on gasoline, fuel, oil, soft coal, and domestic coke. On the other hand, backing up of supplies is weakening prices for gasoline and closing wells and refineries in the mid-continent field.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., $909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

The past fortnight has seen the United States move cumbersomely, but definitely in the direction of complete price freezing. The many problems and complications in this drastic step defy the imagination. Even in Washington the prospect is viewed with ill-concealed apprehension and misgivings. It will be NRA in reverse. Remembering what happened then, one can scarcely be blamed for regarding the present prospect with foreboding. Merely to visualize such questions as to the treatment of prices of import commodities, wages, farm products and the millions of retail outlets is sufficient to leave businessmen in a complete state of confusion. In the end the whole problem of arresting an inflationary price rise may have to be dealt with by such expedients as complete rationing and licensing, complemented by a further increase in taxes and forced savings. The ways and means of a war economy are not easy—as we shall all discover before long. Only the hard way will bring ultimate victory.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August 1939, equal 100

	Apr. 4	Apr. 10		Apr. 4	Apr. 10
28 Basic Commodities	167.2	167.2	**Domestic Agricultrial**	185.8	184.7
Import Commodities	163.0	163.5	**Foodstuffs**	185.7	184.9
Domestic Commodities	170.0	169.6	**Raw Industrial**	154.4	154.9

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
May	Apr. 10	19.65	......	11.28
July	Apr. 10	19.77	......	11.25
Spot	Apr. 10	21.34	21.23	11.52
(In bales 000's)				
Consumption, U. S.	Feb.	894	946	793
Exports (Ex-Linters)	Oct.	161,668	189,215	......
Imports (Ex-Linters)	Oct.	40,696	25,134	......
Government Crop Est.	Dec. 1	10,976	......	12,686(ac)
Active Spindles (000's)	Feb.	11,364	10,540	9,901
WHEAT				
Price cents per bu. Chi. closing				
May	Apr. 10	122¾	......	90⅝
July	Apr. 10	125	......	88⅞
Gov't Crop Est. bu. (000's)	Dec. 1	945,937	......	812,374(ac)
CORN				
Price cents per bu. Chi. closing				
May	Apr. 10	88⅛	......	67⅜
July	Apr. 10	90½	......	67¾
Gov't Crop Est. bu. (000's)	Dec. 1	2,672,541	......	2,460,624(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Consumption of cotton in March is estimated at 970,000 bales compared with the previous monthly high of 953,600 bales in October, 1941. Priced turned reactionary last week, under the combined pressure of the anti-inflationary moves being taken in Washington and the scheduled sale of 300,000 bales held by Commodity Credit Corp. Net losses for the week ranged from 9 to 17 points. Trade buyers were disposed to await further clarification of price moves in Washington.

Wheat. Prices responded to the Government crop report indicating a winter crop yield of about 625,000,000 bushels compared with 671,293,000 bushels a year ago. The latest estimate was lower than the two preceding ones. Flour buying continues quiet, with consumers apparently well stocked for several months to come. Soy beans have displayed strength, on reports that large purchase will be made for lend-lease. Disappearance of corn on farms has totaled 710,000,000 bushels since the start of the year.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Apr. 11	12.00	12.00	12.00
Exports f. a. s. N. Y.	Apr. 11	11.00	11.00	10.50
Refined Prod., Domestic*	Feb.	81,724	90,017	93,654
Refined Del., Domestic*	Feb.	107,616	130,467	112,819
Refined Stocks, Domestic*	Feb. 28	77,329	81,371	97,689
TIN				
Price cents per lb., N. Y.	Apr. 11	52	52	52⅝
Tin Plate, price $ per box	Apr. 11	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	Dec.	7,700	8,355	9,200
U. S. Visible Supply† as of	Dec. 31	3,500	2,186	9,179
LEAD				
Price cents per lb., N. Y.	Apr. 11	6.50	6.50	5.85
U. S. Production*	Feb.	45,633	43,307	47,764
U. S. Shipments*	Feb.	45,920	53,037	54,859
Stocks (tons) U. S., as of	Feb. 28	24,830	20,531	46,604
ZINC				
Price cents per lb., St. Louis	Apr. 11	8.25	8.25	7.25
U. S. Production*	Feb.	73,476	79,276	61,603
U. S. Shipments*	Feb.	74,775	79,413	65,818
Stocks, U. S., as of*	Feb. 28	22,626	23,925	10,644
SILK				
Price $ per lb. Japan xx crack	Apr. 11	3.57	3.57	2.88½
Mill Dels. U. S. (bales)	Nov.	5,676	4,160	36,374
Visible Stocks U. S. (bales) as of	Nov. 30	55,486	57,508	60,330
RAYON (Yarn)				
Price cents per lb	Apr. 11	53	53	53
Consumption (a)	Feb.	35.9	41.2	31.6
Stocks as of (a)	Feb. 28	4.4	4.8	10.0
WOOL				
Price cents per lb., raw, fine, Boston	Apr. 11	1.13	1.13	97½
Consumption, period ending (a)	Jan. 31	44,848	43,696	40,065
HIDES				
Price cents per lb. No. 1 Packer	Apr. 11	15½	15½	14½
Visible Stocks (000's) as of	Jan. 31	14,170	13,989	14,063
Boot and Shoe Production, Prs.★	Feb.	40,007	39,828	38,682
RUBBER				
Price cents per lb	Apr. 11	22½	22½	22.77
Imports, U. S.†	Oct.	72,222	83,151	74,716
Consumption, U. S.†	Oct.	60,418	53,655	59,644
Stocks, U. S., as of	Oct. 31	454,711	473,684	235,353
Tire Production (000's)	Feb.	1,113	1,369	5,161
Tire Shipments (000's)	Feb.	1,116	1,231	4,896
Tire Inventory (000's) as of	Feb. 28	4,553	4,550	10,029
COCOA				
Price cents per lb	Apr. 11	9.00	8.95	7.31
Arrivals (bags 000's)	Feb.	79	166	491
Warehouse Stocks (bags 000's)	Apr. 10	993	1,063	1,343¾
COFFEE				
Price cents per lb. (c)	Apr. 11	13⅜	13⅜	10
Imports, season to (bags 000's)	Feb.	7,707	......	10,782
U. S. Visible Supply (bags 000's)	Mar. 1	1,750	2,384	2,510
SUGAR				
Price cents per lb.				
Raw	Apr. 11	3.74	3.74	3.40
Refined (Immediate Shipment)	Apr. 11	5.60	5.60	5.10
U. S. Deliveries (000's)	11 mos.	7,360	......	6,324
U. S. Stocks (000's)* as of (rr)	Nov. 30	534	713	582

PRESENT POSITION AND OUTLOOK

Copper. Reflecting new production sources output of crude copper in March rose from 80,148 tons in February to 92,202 tons, while refined output gained from 81,724 tons to 89,552 tons. the crude tonnage was one of the largest on record and brought first quarter average well above 1941 figures.

* * *

Tin. Control was further tightened over civilian use of tin. U. S. Steel announced the perfection of a new electrolytic process for tin plating, the use of which is calculated to save 5,250 tons of tin annually—about 14% of the tin used normally in making tinplate.

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Lead. The building of new houses and offices for civilian use has been prohibited. Minor modernization plans are not affected, but the order undoubtedly means curtailment of paint sales, along with reduced consumption of red lead, white lead and litharge.

* * *

Zinc. Reports were current that an order is being prepared by W P B placing the country's entire production of slab zinc on a full 100% allocation basis.

* * *

Wool. Carpet wool consumption increased slightly in February. One large carpet mill has been forced to close one of its large plants due to the restructed supply of jute.

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Rayon. A program is under consideration involving substantial conversion of facilities to the production of high tenacity rayon yarn to meet heavy military demands. This will mean a further reduction in the poundage of rayon for civilian consumption.

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Rubber. A serious shortage of scrap rubber for reclamation purposes looms. Deliveries to reclaimers have dropped off sharply and stocks have been cut to about half normal supply.

* * *

Sugar. O P A granted permission to Defense Supplies Corp. to pay $5.60 a 100 pounds for offshore refined and beet sugar. This will affect 10 Northeastern states and bring the price in line with the previous level four Atlantic Coast states.

* * *

Cocoa. Supplies in domestic warehouses continue to drop sharply. The decline in the latest week totaled 67,000 bags.

* * *

Coffee. U. S. coffee quotas are about 47% filled. Brazil has entered 4,907,000 bags, or about 46% of a total quota of 10,594,000 bags.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available. (r. r.)

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Apr. 4	1¼%	1¼%	1¼%
Prime Commercial Paper	Apr. 4	½-¾%	½-¾%	½-¾%
Call Money	Apr. 4	1%	1%	1%
Re-discount Rate, N. Y.	Apr. 4	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Apr. 4	3,534	......	7,438
Cumulative year's total to	Mar. 31	51,293	......	41,665
Bank Clearings, N. Y.	Apr. 4	3,393	......	4,126
Cumulative year's total to	Mar. 31	45,981	......	42,933
F. R. Member Banks				
Loans and Investments	Apr. 1	30,494	30,781	26,952
Commercial, Agr., Ind. Loans	Apr. 1	7,003	7,008	5,465
Brokers Loans	Apr. 1	408	......	504
Invest. in U. S. Gov'ts	Apr. 1	12,705	12,942	10,578
Invest. in Gov't Gtd. Securities	Apr. 1	2,684	2,702	2,753
Other Securities	Apr. 1	3,711	3,579	3,793
Demand Deposits	Apr. 1	24,197	24,574	23,093
Time Deposits	Apr. 1	5,120	5,125	5,441
New York City Member Banks				
Total Loans and Invest.	Apr. 8	12,524	12,402	11,132
Commercial, Ind. & Agr. Loans	Apr. 8	2,787	2,793	2,084
Brokers Loans	Apr. 8	332	291	344
Invest. in U. S. Gov'ts	Apr. 8	5,652	5,566	5,480
Invest. in Gov't Gtd. Securities	Apr. 8	1,470	1,467	1,580
Other Securities	Apr. 8	1,484	1,474	1,477
Demand Deposits	Apr. 8	10,637	10,612	11,026
Time Deposits	Apr. 8	703	705	744
Federal Reserve Banks				
Member Bank Reserve Balance	Apr. 8	12,715	12,496	13,656
Money in Circulation	Apr. 8	11,610	11,593	8,993
Gold Stock	Apr. 8	22,675	22,673	22,413
Treasury Currency	Apr. 8	3,279	3,277	3,113
Treasury Cash	Apr. 8	2,177	2,187	2,272
Excess Reserves	Apr. 8	3,170	3,000	6,030
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Feb.	74	170	274
New Capital	Feb.	55	87	47
Refunding	Feb.	20	83	227

COMMENT

The April issue Federal Reserve Bulletin has considerable to say regarding the large increase in the amount of currency in circulation and the degree of hoarding which it has implied. The article points out that the increase of $2.7 billion in outstanding currency over the past year has been due to three main reasons: (1) the expansion of payrolls and retail trade settled in cash; (2) greatly increased use of cash instead of checks due to higher bank service charges; (3) hoarding, although was not rated a major factor. It was estimated that hoards totaled about $2 billion. The article states, in connection with the popular belief that increased currency circulation is inflationary, "It has an effect that is the exact opposite of inflationary. It absorbs bank reserves. While an increase in the currency demand for spending could at times be an indication of an inflationary development, it would be a symtom and not a cause."

* * *

Loans and investments of New York City Member banks increased $122,000,000 in the most recently reported week. This is a new high. The gain was contributed largely by an increase of $82,000,000 in the banks' holdings of Treasury bills. All loans increased $23,000,000, although loans to commerce, industry and agriculture were off $6,000,000.

* * *

Treasury expenditures for war in March total $2.8 billion, a substantial gain over the figure of $2.2 million for February. The daily average for March was $108 million compared to $92 million for February, an increase of 17% for the latest month. Even allowing for the larger number of days in March the figures are gratifying and indicate that the war program is rapidly getting into high gear.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1942 Indexes High	Low	Apr. 4	Apr. 11
270 COMBINED AVERAGE	48.6	43.9	44.6	43.9
3 Agricultural Implements	82.6	72.7	78.3	77.5
9 Aircraft (1927 Cl.—100)	172.6	148.8	154.0	148.8a
4 Air Lines (1934 Cl.—100)	245.0	190.5	191.0	190.5c
5 Amusements	31.7	29.0	29.4	29.0a
13 Automobile Accessories	79.3	70.7	75.8	75.5
13 Automobiles	9.7	7.1	9.3	9.7A
3 Baking (1926 Cl.—100)	6.1	5.1	5.2	5.2
3 Business Machines	94.2	81.7	89.6	91.8
2 Bus Lines (1926 Cl.—100)	64.6	38.2	53.3	49.7
6 Chemicals	156.3	131.4	133.7	131.4b
14 Construction	19.3	17.0	18.2	17.4
5 Containers	158.8	147.8	152.0	148.7
8 Copper & Brass	75.1	66.3	68.5	66.3a
2 Dairy Products	27.8	25.7	26.6	25.7a
6 Department Stores	16.3	13.3	13.6	13.3d
6 Drugs & Toilet Articles	43.5	37.1	38.7	38.3
2 Finance Companies	114.0	99.5	107.6	109.5
7 Food Brands	78.2	63.5	65.1	63.5
2 Food Stores	43.7	37.7	38.5	37.7a
4 Furniture	28.1	24.5	26.1	24.8
2 Gold Mining	455.2	325.6	333.9	325.6n
6 Investment Trusts	16.5	14.4	14.6	14.4a

(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	Apr. 4	Apr. 11
100 HIGH PRICED STOCKS	51.96	46.29	47.26	46.29t
100 LOW PRICED STOCKS	38.78	33.57	35.08	34.19
3 Liquor (1932 Cl.—100)	159.9	145.0	152.5	147.3
8 Machinery	83.8	74.2	75.6	74.2g
2 Mail Order	53.9	45.5	49.7	49.3
4 Meat Packing	46.0	35.9	36.2	35.9
9 Metals, non-Ferrous	131.7	101.9	108.6	112.5
3 Paper	11.3	10.1	10.3	10.1a
21 Petroleum	74.6	62.8	63.7	62.8g
16 Public Utilities	19.1	14.3	14.8	14.5
3 Radio (1927 Cl.—100)	7.5	5.9	7.5A	7.2
7 Railroad Equipment	37.9	32.4	34.3	32.4d
16 Railroads	9.9	7.6	8.6	8.5
2 Realty	1.9	1.3	1.5	1.5
2 Shipbuilding	112.0	95.4	102.2	96.7
12 Steel & Iron	65.0	59.2	60.6	59.2a
2 Sugar	40.1	32.1	33.2	32.1a
2 Sulphur	179.4	156.1	163.0	157.3
3 Telephone & Telegraph	38.1	30.6	38.1A	35.2
2 Textiles	34.2	27.1	29.9	27.1k
3 Tires & Rubber	9.4	7.9	9.4A.	9.2
4 Tobacco	55.3	43.3	45.0	43.3m
2 Variety Stores	187.2	151.0	151.0d	151.6
19 Unclassified (1941 Cl.—100)	109.9	98.3	101.8	99.0

A—New HIGH this year. New LOWS since: a—1941; b—1940; c—1939; d—1938; g—1935; k—1933; m—1932; n—1931; t—Nov. 14, 1936.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

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American Smelting & Refining Co.

How do your analysts regard the appreciation and dividend prospects for American Smelting and Refining common, now? I have 125 shares that I bought around current levels, and should like to know whether it would be advisable to sell—or hold, with some assurance that the stock will move ahead marketwise. Can the Company's recent development of lead base alloys be regarded as a potentially important new factor in earnings this year? Do present metal prices allow sufficient margin to absorb rising costs and taxes? Please review this Company's situation and outlook from all angles, and let me have your advice.—Mrs. K. C., Kansas City, Mo.

Operations of American Smelting & Refining Co. last year attained a new record high and despite the fact that the company's tax bill was almost double that of the preceding year, the net earnings figure showed worthwhile improvement. Thus, net earnings for the year stood at $15,742,662, equivalent to $5.59 a share on the common stock, comparing with $12,735,204, or $4.21 a share a year before. The importance of this organization to the wartime metal demands may be judged by the fact that domestic plants last year refined over 40% of the total output of all primary copper refining plants of the country. In the refining of lead, the company handled 64% of the output of primary refineries in both the United States and Mexico, while it produced about 16% of the zinc total for this country and Mexico. Output of the company's refineries in 1941 was as follows: Copper, 602,258 tons; lead, 494,000 tons; zinc, 103,371 tons; silver, 84,555,549 ounces and gold 2,226,230 ounces. The closing of the European smelting facilities upon outbreak of the war resulted in a severe strain upon our domestic facilities and to meet this situation the company took immediate steps to increase its zinc smelting capacities and began construction of a new electrolytic zinc plant at Corpus Christi, Texas, with an estimated annual capacity of 25,000 tons. This new plant is expected to be operating by the Fall of 1942, with output going exclusively to the Metals Reserve Co. In the report for the year, the company points out that conditions in Mexico began to improve with the change of Administration on January 1, 1941, and that this trend has since been accentuated by the general understanding with the United States. This development has led to renewed confidence on the part of the company in the future of its Mexican operations and they are being expanded accordingly. Active research has led to a number of important discoveries in the metals field and the recently developed new lead base alloys are expected to result in substantial savings of tin, estimated to run as high as 20,000 tons annually. In view of the virtual loss of our tin supplies resulting from territorial losses in the Far East, this development promises to be of great importance to the war industries. With indications promising well sustained earnings and dividends, retention of the stock is advised.

Homestake Mining Co.

I am greatly worried about my investment of 100 shares of Homestake Mining which cost me $52 a share. My principal has been reduced by half, due to the recent sharp decline and I fear that the annual dividend of $4.50 may be in serious danger. What is your rcommendation as to buying an additional 100 to reduce my purchase price? How do you feel that Homestake will fare in view of rising costs, taxes, possibility of labor shortages and now the indication that equipment will be restricted to prevent gold mining companies from competing with essential war industries?—M. I. L., Akron, Ohio.

During 1941, operations of Homestake Mining Co. were featured by an increase in ore production from the mines of 4.62% over that of 1940. Realization per ton of ore milled declined, however, to $13.02 as against $13.26 in the preceding year, indicating that the quality of the ore treated last year was somewhat lower than formerly. Nevertheless, the decline in earnings to the equivalent of $2.83 a share, as compared with $3.03 a share in 1940 is attributable chiefly to higher taxes and expenses. Taxes last year increased $560,990 over 1940 and the importance of this item in future earnings statements give no evidence of diminishing. As a matter of fact, that is one of the principal reasons for declining earnings of the gold companies as a group during a

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period such as the present, although there are, of course, others such as rising labor and material costs. Unfortunately, gold and silver are not classified as essential to the war effort and accordingly companies operating in these fields may find it increasingly difficult to obtain needed machinery and supplies. In addition to the possible shortage of necessary mining equipment, the matter of operating personnel also promises to become acute as the war industries get into high gear. This all raises the problem of continuity of operations during the period of the war and it is conceivable that ultimate shutdowns may become necessary depending upon the length of the emergency. Certainly the situation is not such as to suggest dividends during the war years comparable with those obtained in normal times. Homestake is one of the strongest organizations in the industry, however, with blocked-out ore reserves of approximately 19,393,000 tons, or the equivalent of a 13-year supply of proven ore at recent operating rates. Since your stock was purchased well above existing levels, we would be inclined to recommend retention with a view to more favorable long range prospects. Since the company is unquestionably vulnerable to a war economy, however, we would not favor extending your position in the issue, believing that there are other situations offering more clearly defined appeal in the present setting.

Boeing Airplane Co.

Now that Boeing Airplane is lifting earnings to new high levels, do you think it may be in a position similar to that of Consolidated Aircraft early last year? I have been a patient holder of 100 shares of Boeing bought at 32 in 1939 and hope that some benefits are ahead. Do you recommend averaging under 20? Before taking any action, I would appreciate knowing your attitude toward maintenance of profit margins, financial strength, working capital needs and dividend possibilities. What is the present status of the tie-up with Douglas and Lockheed? —R. W. E., Portland, Oregon.

Report of Boeing Airplane Co. for 1941 showed a substantial improvement over the preceding year, with net income totalling $6,113,144, equivalent to $5.65 a share on the capital stock, contrasting with $374,665, or 35 cents a share the year before. Sales of planes and parts during the year totaled $93,893,090, as against $19,390,718 in 1940. During the period from 1934 to 1939, inclusive, the company operated at a substantial loss. It was during this time that developments were actively being carried out on the company's now-famed four-engine flying fortress. While stockholders in the past may have been disappointed with the earnings showing, the management now seems to have been fully

vindicated. This specialization on the long range four-engined bomber has already proven a boon to the country in the Pacific war theatre and as deliveries continue to increase, the patient shareholder such as yourself may well be fully repaid. Of course, the margin of profit on unit sales doubtless will decline, but in view of the outlook for greatly increased deliveries during the war period, the net earnings figure should hold at eminently satisfactory levels. Plant facilities have been steadily augmented and further increases in plant capacity may be expected to keep pace with Army and Navy requirements. Most of such additional facilities are being financed by the Government, but working capital requirements of the company will doubtless continue heavy during this growth period which suggests that dividend payments, if any, will be held at a ratio conservative to earnings. However, in this regard the outlook is better than at any other time in the company's history and since the shares are most reasonably priced in relation to indicated current and prospective earning power, we believe that market possibilities are also promising. In order to meet Government demands for heavy bombers, both Douglas and Vega Airplane Co., Lockheed subsidiary, are pooling their facilities with Boeing in the construction of an identical plane. Such practice is now being employed throughout the war industries and it should result in more effective and economical work all around. Whereas a number of aircraft companies, including Consolidated, reported high earnings before the all-out war program, Boeing has only recently attained its full stride from an earnings viewpoint and the future appears distinctly promising.

Commercial Solvents Corp.

My broker considers Commercial Solvents common as an outstanding low-priced stock at this time. However, I already have 300 shares at 15¼ and would like your unbiased advice. Do you look for continued improvement in earnings or is the company vulnerable to higher taxes and curtailment in certain of its important outlets . . . the automobile and furniture industries for examples? I understand this is more than offset by the manufacture of vitamin concentrates, its new Nitro-pariffin business and war work. Will you please send me your latest report and appraisal?—H. R. B., San Francisco, Cal.

Attesting to the importance of alcohol and other chemical products produced by the company to the war program, sales of Commercial Solvents Corp. in 1941 amounted to $24,664,166, as compared with $15,844,930 for the preceding year. While prices were somewhat higher, most of the increase represents an actual improvement in the volume of goods sold. Federal income and excess profits taxes paid on last year's business equalled $1.03 a share, as against 26 cents a share for 1940 and this heavy tax increase tended to minimize the improvement in net which was held to modest proportions, with 99 cents a share on the common stock, comparing with 90 cents a share earned in 1940. Balance sheet position of the organization at the close of the year was strong, with a ratio of current assets to current liabilities of better than 6 to 1. Cash alone totaled $3,852,445 and represented an increase over the preceding year of $2,044,614. In the report the company points out that sales were limited only by the organization's ability to produce and in view of the tremendous requirements of alcohol and its derivatives at the present time, a high volume of business is assured during the period of the war, at least. In the production of vitamin concentrates the company has made rapid progress and the demand here also has been in excess of output. Through an intensive research program the company indicates that output will be measurably increased this year. Production of nitroparaffin products for the chemical consuming industries also has failed thus far to keep pace with the rapidly expanding demands and this business should prove a profitable one in the period ahead. With large amounts of ammonia required in the war program, the company has contracted with the War Department for construction and operation of a plant for its production. This plant will be financed and owned by the Government and will be operated by the company on the basis of cost plus a fixed fee. As in the past, the organization has continued to produce rye and bourbon whiskies as well as beverage spirits for a limited number of rectifiers under contract. However, because of the ever increasing demand for industrial alcohol, the beverage alcohol end of the business may be sharply curtailed. Long active in research, the company's facilities here have recently been expanded and new developments may be expected in the future which will further strengthen the company's position in the ever growing chemical field. As indicated by the tax bill last year, the company's earnings over the period ahead may be restricted by further increases. Nevertheless, from a longer range viewpoint the shares seem to hold excellent possibilities for both market growth and income return. While the demand for alcohol cannot be expected to be maintained indefinitely at recent levels, the development of new chemical products should act as a stabilizer on future earnings position.

American Cyanamid B

What is your opinion of the market outlook for American Cyanamid B? Is it likely to continue to sell at 12 to 15 times earnings under war conditions? I know the company occupies an important position in the synthetic rubber industry, but wonder whether this can materially stimulate earnings this year. Holding 200 share bought at 39, I have received a fair yield but am disappointed with my capital loss. Is recovery to my purchase price probable as Cyanamid diversifies its products and becomes increasingly engaged in our war effort? Can it offset heavier taxes and higher operating costs?—J. A. F., Omaha, Nebraska.

American Cyanamid Co. probably represents one of the most thoroughly diversified manufacturers of chemicals in the United States and through continued emphasis upon research and development work, the future holds an alluring prospect of continuous growth. Among the most important of its newer products are the "sulfa" drugs, in the development of which the company has been a pioneer. These have already proven their remarkable lifesaving properties among the civilian population and their use is expected to contribute importantly to reducing the mortality rate among our armed forces. In the currently critical synthetic rubber field, the company ranks as an important producer of one of the chemicals entering into its production, while plastics, mining chemicals, solvents and numerous other industrial chemical specialties produced attest to the organizations importance to our all-out war effort. In the report of the company for 1941, earnings were shown at $6,766,292, equivalent to $2.42 a share on the common stock,

Wear A Buddy Poppy

ON MEMORIAL DAY

The Buddy Poppies are made by disabled ex-service men patients in government hospitals. The Sale is held nationally every year during the week of Memorial Day.

The Veterans of Foreign Wars use all proceeds for relief work and this year funds are also available for the welfare of soldiers, sailors and marines now with the Armed Forces and their dependents. An allotment to the V. F. W. National Home for Widows and Orphans of Ex-Service Men, in Eaton Rapids, Michigan, is also included.

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VETERANS OF FOREIGN WARS

comparing with $6,629,729, or $2.44 a share outstanding a year before. The balance sheet position at the year end was strong as usual with current assets amounting to $62,-489,124, including cash alone of $17,-360,065, against current liabilities of $23,408,226. Despite this good financial condition, the necessity of plant expansion to meet consumer demands during the war period raised the need for working capital. Bank loans of $10,000,000 have been arranged since the close of 1941, being repayable at the rate of $1,250,000 annually for four years, with $5,000,-000 due at the end of five years. The matter of taxes suggests that earnings growth during the period ahead will be restricted, but it is possible that some improvement may be recorded in view of the indicated record level of output. Thus, dividends should be maintained around recent levels and accordingly the stock should continue to attract good investor support at a higher price times earnings ratio than is common today for many stocks of the so-called war boom type. With the organization holding a key position in the war production picture and also well situated from a post-war viewpoint, we anticipate that the shares will work out advantageously in the market.

Another Look At . . .

(*Continued from Page 29*)

bank loan of $1,680,000. A registration statment, calling for the issue of $8,500,000 first mortgage bonds and 40,000 shares of new $5 convertible preferred, proceeds of the sale of which would be used for retiring outstanding debentures and adding to working capital, was withdrawn because of market conditions on February 18.

The cusomary stable results are expected from the book division and operations in other divisions should hold at capacity. The danger of pulp shortages is eliminated by complete integration. White paper prices are at the highest prices in several years and profit margins should be wide.

Champion Paper's present capitalization consists of $8,660,000 debentures, $1,680,000 long term notes, 89,093 shares of $100 par 6 per cent preferred and 550,000 shares of no par common.

War Producers Geared for Peace

(*Continued from page 25*)

Three" will probably be strengthened by the war. This will not be so much a question of finances, since the opportunity for financial rehabilitation will be greater for the independents, as it will be of their greater experience with and ability to adapt the processes and materials discovered in war time to peace time pursuits. The "Big Three," with their better diversification, have a more comprehensive appreciation of the production lessons learned from the war effort and will also be in better position to transform some of their new capacity to civilian pursuits.

Once the readjustment to peace is complete, however, there are many reasons for thinking that the entire industry faces a period of unparalleled prosperity.

Rebuilding Your Investment Portfolio

(*Continued from page 15*)

exigencies of war may have made it necessary to charge unusual reserves against earnings. All of these considerations have a direct bearing on dividends, and many companies may earn their current dividend by a good margin, even after taxes, but still be forced to act conservatively in order to husband its working capital. You as a stockholder will have to help by accepting a lower dividend.

Particular attention should be paid to the shares of those companies not prominently identified with the war effort. If the nature of their business is such that at best such impetus as might be imparted to sales and earnings by the war effort will be indirect and limited, you should be prepared to modify substantially your current dividend expectations. Typical of this group are the shares of power and light companies, food processors, retail groups, tobacco companies and confectionery manufacturers. Notable exceptions are the motion picture industry, meat packers and domestic beet sugar companies.

In recent weeks there has been a growing disposition in Congress to look with favor on a general sales tax. This suggests the possibility that Congress may adopt a schedule of excess profits taxes at least as severe as the Treasury asks—if not more so. On the other hand it appears increasingly likely that Congress will resist combined maximum rate of 55 per cent for income and "war surtax" urged by the Treasury. A compromise rate of 40 to 45 per cent may result.

If the current tax program works out along these lines, the effect might well be to increase the *relative* attraction of many of the non-war stocks, and the shares of those companies, such as the automobile equipment manufacturers, with sufficient industrial flexibility to be classified as "peace or war" enterprises.

In emphasizing here the wisdom of re-building and strengthening portfolios at this time as a means of safeguarding income, I do not wish to imply that the investor should abandon entirely his common stock commitments in favor of medium grade bonds and preferred stocks. There is a fairly wide choice of common stocks which this year will earn and pay dividends equal to last year—if not more. Strictly speaking, these are not "war babies." They are issues of companies which not only have a prominent role in the war program but which also have a promising peace potential. A representative list of such issues accompanies this discussion. The attention of the reader is directed particularly to the fact that most of these issues comprise the sole capitalization, the number of shares outstanding is relatively modest, and finances are such as to suggest that these companies in formulating current dividend policies will not be seriously handicapped by considerations arising from increased working capital requirements.

In the issue of April 4, I presented two lists of selected income issues—one of medium grade preferred stocks, the other second grade bonds, with the emphasis on the railroad group. For more extensive treatment of these groups the reader is referred to that issue, in conjunction with the list of medium grade bonds and preferred stocks herewith.

How the Can Companies Are Adjusting to War

(Continued from page 27)

by the Government.

At the same time the company, in its many machine shops, is doing sub-contracting work for 19 contractors making parts for bomb sights, tools for Garand rifles, and preparing to construct a plant to manufacture torpedoes for the Navy. The number of American Can employees engaged in war work is increasing steadily; many of the plants being on a 100 per cent basis. The Ammunition Container Corporation is manufacturing fibre shell containers in various sizes.

Continental, in addition to making cans used in the war effort, is manufacturing canisters for service gas masks, component metal parts for training gas masks, bomb fuse containers, inner and outer cups for mortar bombs, metal linings for cartridge cases, gun oil cans, ration cans, cans for soluble coffee packed in ration cans, round slip cover cans for signal flares, as well as powder cans, etc.

When the Government instituted its curtailment of the general use of tin cans one of the first to feel the pinch were the brewers. Beer, packed in cans, had become an important item. In a short time American Can Company alone was manufacturing more than a half billion of these cans a year; while Continental and other concerns were doing their share. Then came the order to "cease fire" on beer cans. Back to bottles went beer. But can officials believe the order will be modified to permit canning of some beer for export purposes for American troops abroad. Beer cans weigh less than bottles, take less cargo space, are more easily handled and are unbreakable—all important factors in these days of restricted marine cargo space.

Under Government order M-81 setting up rules and regulations for the use of tin in the manufacture of cans, considerable leeway is granted. Cans are divided, roughly, into three classes. Class one for certain types of food, which may be canned in unlimited quantities in cans above a certain size—salmon

excepted. Class two, for certain types of food with restrictions as to quantity, and class three, a general line on a percentage basis, in large cans only, including such products as insect powder, alcohol, cement, chemicals, fire extinguisher fluid, etc., to be governed strictly on a necessity basis.

Both American and Continental are insistent they will be in the canning business, batting away 100 per cent, no matter how long the war may last. They are prepared to can anything cannable in any type of container which may be procurable. They are specific in stating that, on the whole, packing of food will be normal; there will be no shortages of containers and, even though we are still exporting some tin plate and a great deal of canned supplies, we are in no imminent danger of going without these things at home.

While it is not the intention of the canning companies to do away with the use of tin entirely, it is not inconceivable that if the war lasts long enough, substitutes for tin will be so improved that cans will be made without any tin and the very name "tin can" will become as obsolete as the old-fashioned tin cans of the Victorian era—which were largely undependable. Today manufacturers turn out a product so nearly perfect they guarantee that nor more than two in 1,000 cans will show imperfections.

It must be taken into consideration, that despite high earnings in 1941, increased taxes, more costly research methods to provide substitutes, as well as other factors, will cut into earnings for 1942, even though volume increases.

New Limitations on War Order Profits

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Of course, strictly speaking, there is no such thing as "normal" earning power. But for perspective, you will find it illuminating to compare average earnings of the years 1935-1939 with current earnings and see how present market price relates to the two earnings figures. For instance, Atchison earned $9.90 per common share last year and probably will do about as well this year or not very far from it. At 37 it is priced at less than 4 times earning power per share and "looks" cheap. But if one assumes that normal earning power is more nearly in line with average of $1.06 per share earned over the period 1935-1939 and if it be conceded that the present war prosperity *might* terminate sooner than seems likely at the moment, then the 37 price begins to look much less cheap.

It seems to the writer that wartime earnings and tax potentials have had excessive consideration as factors in security selection. True, they are very important—but other considerations are more basic. The corporation in which you hold an equity stake—or in which you might consider taking one—cannot escape higher taxes. The stock, if it is reasonably in line with the market average, is already at a deep depression level, though it may go somewhat deeper. If it's a sound peace stock, "normal" earnings potential is a very substantial off-set to lower war-time earnings in appraising equity value. If it's a war stock with earnings far above prewar average and with a volume prospect that gives it less-than-average vulnerability to coming higher taxes, that consideration of equity value is substantially offset by the speculative continuity of the wartime earning power.

Perhaps most important of all to the equity investor is the question: How well, or poorly, is your company equipped to adjust itself both to the war period and to the coming peace?

There is much to be said for stocks that are neither "war" stocks nor "peace" stocks but "peace or war" stocks. Outstanding examples are to be found within the consumer durable goods industries which not so long ago were generally regarded as major casualties of the war!

These companies, already converted to war work or in process of conversion, will have all the volume they can handle—with no seasonal slack period, no costly annual changes in models or styles. They will earn substantial profits, though possibly moderately less than in best peace years. They are no more vulnerable to higher taxes than the outright "war" stocks and less so than the great majority of outright "peace" stocks. They are not only continuing but intensifying research progress applicable to their peacetime operations. Many of the numerous technological innovations they are making under pressure in war work will in future make possible greatly improved civilian products at lower production cost. Finally—and most important of all—every month of the war adds just that much to the backlog of deferred civilian demand for the durable consumer goods not now being made.

The automobiles, refrigerators, vacuum cleaners, adding machines, toasters, radios, etc., that are not produced in 1943 or 1944 or 1945 will be produced in the early years of the post-war period. And in practically all these cases the production problem of converting from war work back to regular lines will be far simpler than the present problem of converting from regular lines to war work.

You may say it is uncertain that post-war economic conditions will favor volume sale of consumer durable goods. Of course it is—although it is a reasonable guess that Government money will underwrite a relatively high level of production and employment in the post-war adjustment as surely as it is doing so today. But if post-war prospects for the conversion industries are uncertain, how much more so are those of the outright war industries!

If you want an equity stake in a strong, broadly diversified and relatively conservative "war or peace" stock, you can scarcely do better than take the slow-moving General Motors. It is no accident that for several months it has been slowly but persistently pulling away on the upside from a declining market average. The same is true of Chrysler and various of the better situated motor accessories.

If you can depart from the beaten path, do your own thinking and

BUY WAR BONDS!

wait patiently for sound calculations to work out, you might take a look at Outboard Marine & Motor. It is a small company which, until caught up in the war, was leading its own field of outboard motors—a rapidly growing field due to the rising popularity of boating—even more decisively than General Motors was leading in its field. There is good reason to assume that people will resume buying outboards, not unduly expensive, when the war ends. Meanwhile—and during the months when investors and speculators were fretting about what would happen to companies like this in the war, the stock (quite inactive usually) made a low in the summer of last year which has not up to this writing been broken; and the company busied itself converting to capacity operation as a sub-contractor making aircraft and machine tool parts. War casualty, my eye! Tax casualty maybe—but aren't we all?

These two "peace or war" companies—one very big, the other small—are cited merely as examples. There are many others worthy of consideration on similar reasoning.

If Peace Comes Soon

(*Continued from page* 13)

in January and remaining around that level until late in the fall of that year, when, with a business revival, money suddenly leaped to 10.43 in November, 1919, the highest point for years. In 1929 the average price was 7.60.

Due to our present financial regulations such as the Securities and Exchange Commission and other laws and agencies, speculation following the war cannot be expected to rival the lush period after 1918 culminating in the debacle of 1929.

Because of buying restrictions, if the war should end suddenly inventories would still be high and the immediate demand for durables and soft goods would not be sufficient to warrant immediate large scale production or employment in non-war fields. Combine that situation with the unemployment caused by the shutting down of war industries pending re-conversion and a really serious problem is created. Lack of employment means lack of income, lack of purchasing power and the continuation of high inventories.

It must be borne in mind there will be a vast demobilization of millions of soldiers and sailors, while government agencies will lay-off another army of men and women glutting the labor market still more. Taxes will continue to be high, because war costs unfortunately don't cease when peace is signed.

And it must not be forgotten that when war ends the Government isn't likely to relinquish its paramount position in building, farming and possibly transportation. However, an out-and-out Allied victory, with some assurance that peace will be more than a transitory condition, should rally the market. American companies will be called upon to rebuild much of Europe and Asia devastated by war. American firms with large overseas subsidiaries, many of them completely destroyed by war, will start rebuilding and provide an outlet for investment capital. Railroads will need rolling stock and the steel mills will have much to do. An early peace, from a financial standpoint, will be less promising than a peace twelve to twenty months hence, but it won't, of necessity, be ruinous.

What of our social problem during reconstruction? There will be a tremendous let-down. Millions of workers and soldiers will be thrown upon their own resources. Their crutch of security will be gone. Instead of working at fever pitch for high wages; the tempo of life will slow down and wages will be less plentiful. Persons accustomed to working 48 or more hours a week, will either be jobless or working a reduced number of hours for considerably less money. Sufficient time won't be available to work out an adequate post-war agreement with labor unions and employers will be unable to meet union demands, adding to the economic confusion. It will be a trying time for the unions too. They will either perish or dominate industry depending on the government's attitude.

The United States is a democracy and the bulk of its social legislation is designed to fit normal peace-time conditions. The few war amendments or new laws enacted because of the war, will still be on the statute books when peace comes. Ultimately many of them will be repealed, or due to lack of prosecution, cease to influence our lives.

We are preparing for peace, a victorious peace. As soon as all America is aware of two things—the sooner we win the war the sooner we can have peace—and the sooner we prepare ourselves for the battle of peace the sooner can we be assured that a military victory will not result in the long, costly and heart-breaking loss of that peace.

But don't forget that while it is *economically* possible for an earlier-than-expected peace to cause deep depression and unemployment, it is not *politically* possible. The acceptance by our Government—and by governments in most nations—of responsibility for maintenance by hook or crook of a satisfactory level of economic activity and employment is a firmly established fact. In the modern world no democratic government can stand by and let depression rage—regardless of the budget and the soaring debt.

Both for strategic and political-economic reasons, arms production would be tapered off only gradually. At the same time a huge "make work" program of public works would be launched as rapidly as possible. There would be greater need for Government "pump priming" than if war were prolonged—for early peace would come but a short span away from the recent top of the greatest boom in production and purchase of civilian goods of all kinds that we have ever had.

In contrast, peace after prolonged war would find the stage set for a much greater *private* stimulus to economic activity, due to vast accumulated deficiencies in civilian goods of all types (especially the durable things that play so big a part in the swings of the business cycle); the more extended "storing up" of consumer purchasing power in war bonds; the accumulated obsolescence of plant equipment in consumer goods industries; and the greater scope of technological innovation awaiting application to civilian production.

While early peace seems highly improbable, keep in mind that the end of every war is sudden—when it comes. Hitler will not give us advance notice as to when he plans to yell "Uncle!" But coming months *may* provide a clue sooner than many have expected.

As I See It!

(*Continued from page 5*)

What is the German general staff waiting for? Is it true that the strength of the Russian campaign efforts has disrupted Germany's spring plans? Is the possibility of an allied offensive, calling for a bolstering of Germany's army in the West, responsible for the delay? To what extent is it due to the sabotage in the captive lands? The increasing activity of a Communist Fifth Column in Germany resulting from the millions of captives subjected to enforced slavery working in Germany?

Whatever the reasons, it is evident the Nazi war machine has been considerably slowed down. Yet this is Germany's last opportunity to strike with all her might and her plans call for a titanic effort. We have not long to wait for the answer. May ought to tell the story.

Transportation: Key to Our War Effort

(*Continued from page 22*)

of their facilities, especially bomber facilities, to building heavy freight planes. That hauling of freight by air will ever replace the railroads or steamship lines is most doubtful. The cost of moving heavy freights will prove too costly except where speed is essential. That they will supplement other modes of transportation is a certainty. That they will be used to a great extent for hauling heavy freights to more or less inaccessible points or where speed is more important than per pound costs, is also certain.

The airplane, practically born of war in 1914-19, is getting its second wind, being re-born in the present conflict, and will permanently benefit more than any other form of transportation because of the war.

If it is necessary to include aviation in our modern transportation picture, surely automobile, bus and truck mileage is of greatest importance. The use of gasoline and Diesel propelled trucks to haul millions of pounds of freight across this continent has become a gigantic business, a business so important that many railroads are engaged in it in competition to themselves. The shortage of rubber which interferes with the use of private automobiles also affects trucking. However, certain bus and truck lines will receive priority orders enabling them to buy new equipment and new tires as the old ones wear out. The increased demand for railroad passenger and freight facilities places an additional burden upon the bus and truck companies, a burden they are going to be hard pressed to handle. In fact, they are faced with a super job, one that will tax their facilities to the utmost. Buses, street cars and commuter trains, by one swift blow, may lose their chief competitor—the passenger automobile. Auto trucks are in the same position. Congestion of railroads, slowing down of freight schedules and other factors have made it necessary to ship more and more goods, even perishables, by motor truck.

The street car, and the bus must bring workers to the mills and return them to their homes if our war effort is to operate smoothly. Millions of persons are dependent upon them for their only means of transportation. Even staggering of work hours to prevent top-heavy peak loads, will in many cases, prove inadequate to the demands. Street cars which, because of the invasion of the automobile bus had become obsolete, are being resurrected. Shortages of rubber and of gasoline as well as in almost any type of conveyance on wheels, makes the lowly street car a valuable asset instead of a museum piece.

No nation in the world is as dependent upon transportation in normal times to the extent we are. Geographically we cover a large segment of the earth's land surface. Our industries are scattered from coast to coast and from border to border. Despite the fact Wall Street is the financial heart of the nation, we are not a one street, a one city nor a one section nation. It is essential for American businessmen to travel considerably in the normal pursuits of their business. We are a nation of travelers, both by private motor car and other means. Most of our people have the advantages of a fortnight or more vacations annually; most are employed on a five-day week and, with considerable leisure, a high standard of living there comes a natural desire to travel. It is but natural, therefore, that American travel records should top all others.

In time of war we are even more dependent upon transportation. We must move troops, war workers and supplies vast distances as rapidly as possible. We have our industrial area scattered over a wide expanse; our crops are raised far from sea ports and shipping points or markets. Our troops are doing their fighting thousands of miles from home on foreign shores. They must be moved and with them must go food and clothing, planes and tanks and guns and the myriad of other supplies necessary to maintain an effective fighting force in the field far from its native base.

This war, so largely dependent upon transportation, will bring about mighty changes in that field. As distances grow greater; as requirements increase and raw materials diminish, it is quite possible that all pleasure traffic will be suspended; that all freight shipments will be confined to essential products; that a new type of vehicle will be created. In England, where distances are shorter and where highways were good long before they were here, and where petrol had to be imported and always cost more than it did here, the English perfected a series of light-weight, economical-operating motor cars. Here we went in for long wheel bases, heavy motors, and gave but little thought to economy. War changes our perspective on many things. Not the least of these is transportation.

It is safe to predict that out of this war will evolve lighter and more economical types of motor cars for civilian use, improvement in freight carrying airplanes; the railroads better prepared than ever to meet the demands thrust upon them; more universal use of Diesel-powered motor trucks (because of their economy in the use of fuel); a revival of the "bicycle built for two"; fewer deaths on our city streets from automobiles, and a general appreciation of the advantages we have had over other people in the matter of individual transportation. In the post-war world it will be something else again. The private automobile will return to its own; and in common carrier transport the air lines—for both passengers and freight—will really "go to town."

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